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UNDERSTANDING STATE FINANCES AND THE BUDGETING PROCESS

A Reference Manual for Legislators

December 2000

LEGISLATIVE FISCAL DIVISION

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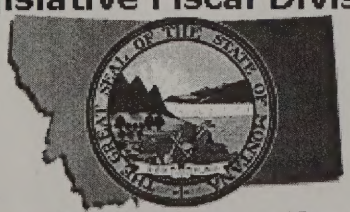
Understanding State Finances and The Budgeting Process

A Reference Manual For Legislators

To the 57th Legislature
By: Taryn Purdy

Helena Montana
December 2000

Legislative Fiscal Division



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MONTANA LEGISLATIVE BRANCH

Legislative Fiscal Division

Room 110 Capitol Building • P.O. Box 201711 • Helena, MT 59620-1711 • (406) 444-2986 • FAX (406) 444-3036

Legislative Fiscal Analyst
CLAYTON SCHENCK

December 2000

Members of the Fifty-seventh Legislature:

This document has been prepared to provide legislators with a general reference manual on state finances and the budgeting process. It is designed to assist legislators and others in understanding budget terms and concepts and their specific application in Montana in order to make the budget process "user friendly". It is also intended to provide legislators with knowledge of the full range of fiscal staff services and materials available and how best to employ them.

I wish to express my deep appreciation to Taryn Purdy for her many hours of work and initiative in creating this document.

Your staff of the Legislative Fiscal Division look forward to being of service to you during the 2001 session. We welcome any opportunity to assist you in obtaining the best possible fiscal information to facilitate setting fiscal policy. Please feel free to call on us!

Sincerely,

Clayton Schenck
Legislative Fiscal Analyst

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PURPOSE AND SCOPE

The purpose of this document is to provide legislators with grounding in state budgeting. It is designed to assist legislators and others in understanding budget terms and concepts and their specific application in Montana in order to:

- Make the appropriations process more inclusive.
- Enhance the efficiency of the process on the floor and elsewhere through a better overall knowledge base.
- Allow legislators to speak with authority on budgetary issues and terms .
- Allow legislators to better understand the fiscal impacts of their bills (and bills they hear in committee that carry a fiscal impact) and how they relate to the overall state budget.
- Provide legislators with knowledge of the full range of staff and materials available to them and how to best employ them.

The manual is divided into six main sections:

1) *Key Terms and Concepts*, which provides a grounding in key state governmental fiscal terms and concepts;
2) *Budget and Revenue Estimating Basics,* which discusses how budgets are put together and how the legislature estimates revenues for budget balancing purposes;
3) *How the Budget and Appropriations Process Works*, which provides information on how key concepts and processes are applied in Montana;
4) *Other Legislation with Fiscal Impact,* which discusses other bills carrying a monetary cost, and the procedures and guidelines for review of those bills;
5) *Post Session and Interim Budget Activities,* which discusses legislative control and tells what happens once the legislature adjourns; and
6) *Budget Materials,* which discusses the budget publications.

The manual is designed to provide information on the resources, material and human, available to assist you either in learning more about the process or through applications specific to your needs. Because of the structure of this document, you may encounter some reinforcing redundancies in the text. These are offered as background and are important in the ways they specifically apply to Montana's processes.

Legislators and others desiring more in-depth training or information are urged to contact the Legislative Fiscal Division at 444-2986; Room 110A in the State Capitol.

THE LEGISLATIVE FISCAL DIVISION

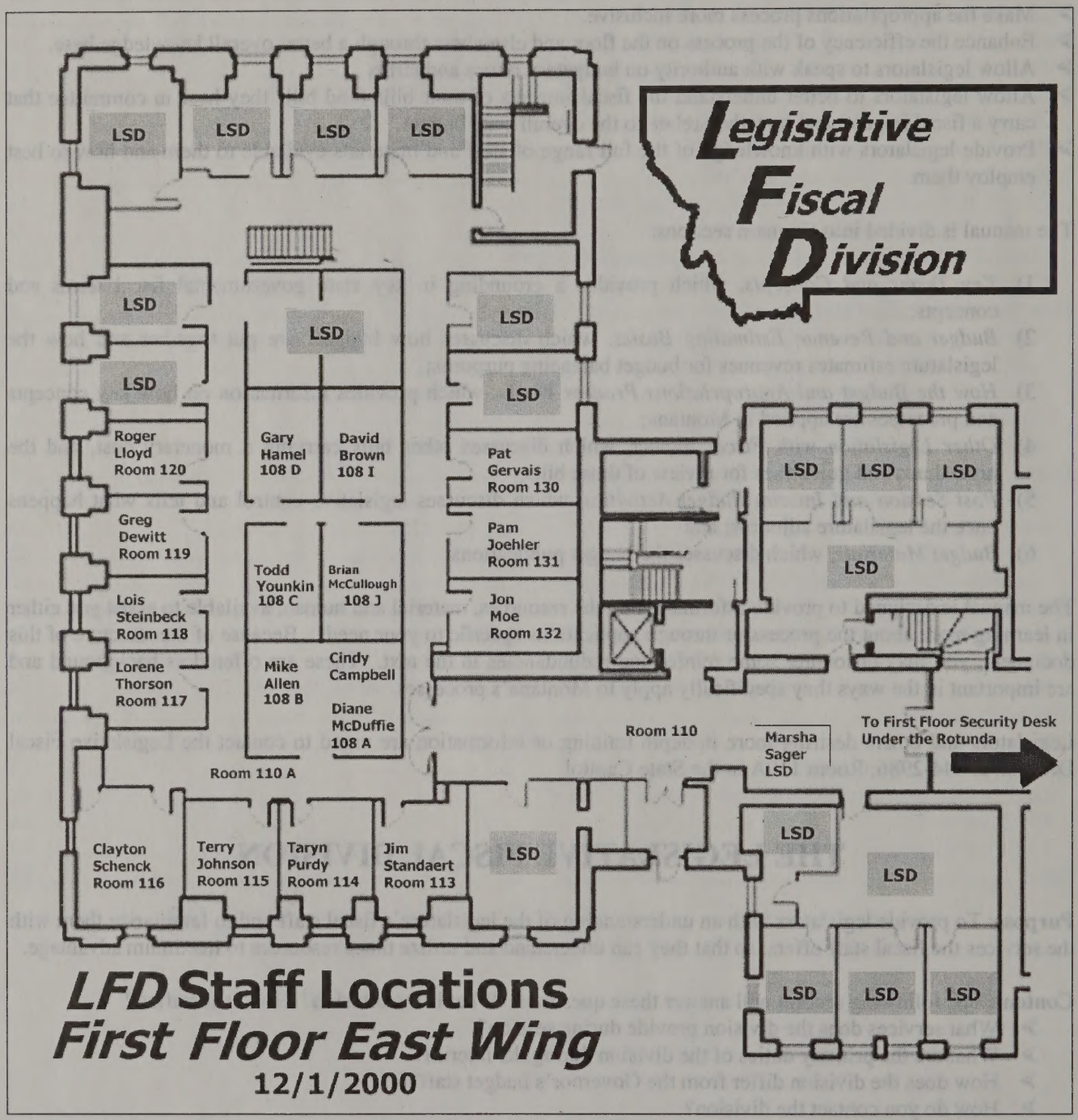
Purpose: To provide legislators with an understanding of the legislature's fiscal staff and to familiarize them with the services the fiscal staff offers, so that they can understand and utilize those resources to maximum advantage.

Content: The following section will answer these questions: What is the division? How is it staffed?

- What services does the division provide during session?
- What are the primary duties of the division during the interim?
- How does the division differ from the Governor's budget staff?
- How do you contact the division?

Legislative Fiscal Division

Legislative Fiscal Analyst – Clayton Schenck
Main telephone number – 444-2986
Building address – State Capitol, Room 110A
Mail Address – P.O. Box 201711
Helena, MT 59620



The Legislative Fiscal Division (LFD) is the legislature's nonpartisan fiscal staff. As an office independent of the executive branch, the LFD exists to help the legislature meet its public policy goals by providing any and all information relating to budget and fiscal matters.

The division, by statute, is charged with several duties. The LFD::

1) Provides fiscal analysis of state government and accumulates, compiles, analyzes, and furnishes information on fiscal matters of state, as well as investigates and studies the economy and efficiency of state government;
2) Estimates revenues;
3) Analyzes the Executive Budget and budget requests;
4) Makes any reports and recommendations considered desirable or as requested;
5) Assists committees and individual legislators in compiling and analyzing financial information; and
6) Provides staff assistance to the Revenue and Taxation Interim Committee.

During the legislative session, the division meets these responsibilities by providing:

- an independent analysis of the proposed Executive Budget conducted in the months prior to the legislative session, followed by publication and distribution of those findings to all legislators ;
- staff to appropriations subcommittees and the House Appropriations Committee and the Senate Finance and Claims Committee;
- staff assistance to the House and Senate Taxation committees;
- fiscal status reports and estimates of the general fund balance, given actions and assumptions of the legislature throughout the session;
- responses to requests from individual legislators on any fiscal matters; and
- any other assistance required.

During the interim between legislative sessions, the division:

1) tracks expenditures, appropriations, and revenues;
2) produces fiscal-related research in any area of state government finance, as authorized by the Legislative Finance Committee;
3) assists the Revenue and Taxation Committee, as well as other interim legislative committees, as requested;
4) staffs the Legislative Finance Committee and all subcommittees thereof; and
5) assists legislators with informational and research needs.

Division Structure

The division consists of 18 staff members, who serve in three sections:

1) **Revenue Estimation and Tax Policy Analysis** – This section provides objective, impartial estimation of state revenues prior to and during the legislative session, and during the interim as well. This function also analyzes all bills impacting tax policy and collections during the legislative session, assists House and Senate tax committees and the Revenue and Taxation Interim Committee, and conducts tax policy research.

   For any questions concerning revenues, tax policy, or K-12 education funding (BASE Aid funding program), contact this section at 444-2986.

2) **Expenditure Analysis** – The personnel in this section provide objective, impartial analysis of state agency operations and expenditures prior to and during the legislative session as well as during the interim. These people staff appropriations subcommittees, write the General Appropriations Act, and conduct fiscal research as required or requested.

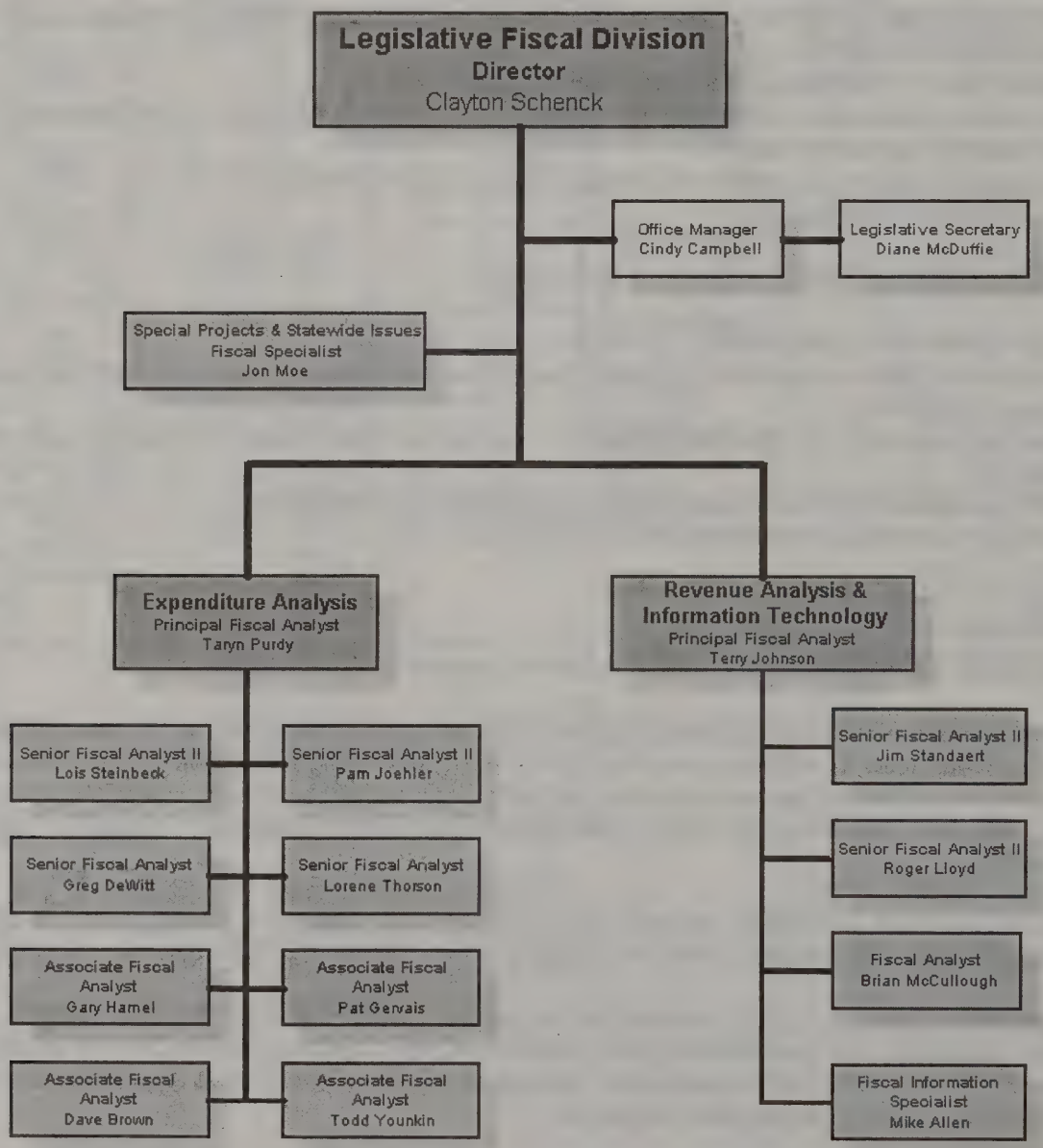
Each analyst in this section specializes in the operations and budgets of a particular group of state agencies. A listing of current state agency assignments and the direct telephone numbers for the analyst assigned is included in this manual (page 5). Analysts assigned to a given section can answer any questions you may have about individual agencies and their budgets, and about general budgeting and appropriations as well. They can be reached at 444-2986.

3) **Administrative Support** – The personnel in this section are responsible for providing support for the division.

The attached organizational chart details the division's structure.

The Legislative Fiscal Division functions in contrast to the Office of Budget and Program Planning, which serves the Governor and is responsive to his/her budget and fiscal priorities.

We, on the other hand, are *your* fiscal staff, and we urge you to contact us with any budget, appropriation, or fiscal question you may have. We are here to assist you in any way we can.



LEGISLATIVE FISCAL DIVISION (LFD)

State Capitol, First Floor, East Wing

STAFF ASSIGNMENTS

(with phone extensions and office numbers)

General Government & Transportation

Greg Dewitt (444- 5392, Office #119)
- Secretary of State
- Transportation
- Revenue
- Administration
- Appellate Defender Commission

Dave Brown (444- 5834, Office #110A)
- Legislative Branch
- Consumer Counsel
- Judiciary
- Mt. Chiropractic Legal Panel
- Governor's Office
- Commissioner of Political Practices
- State Auditor's Office

Health & Human Services

Lois Steinbeck (444- 5391, Office #118)
Pat Gervais (444- 1795, Office #130)

Natural Resources & Commerce

Gary Hamel (444- 5347, Office #110A)
- Fish, Wildlife & Parks
- Environmental Quality
- Natural Resources & Conservation

Todd Younkin (444- 2722, Office #110A)
- Livestock
- Agriculture
- Commerce

Corrections & Public Safety

Lorene Thorson (444- 5387, Office #117)
- Board of Crime Control
- Justice
- Public Service Regulation
- Corrections

Todd Younkin (444- 2722, Office #110A)
- Military Affairs
- Labor & Industry

Education

Dave Brown (444- 5834, Office #110A)
- School for the Deaf and Blind
- Board of Public Education
- Montana Arts Council
- Library Commission
- Montana Historical Society

Education (cont.)

Pam Joehler (444- 5386, Room 131)
- Commissioner of Higher Education/Board of Regents
- Community Colleges
- Six University Units and College of Tech.
- Agricultural Experiment Station
- Extension Service
- Forestry & Conservation Experiment Station
- Bureau of Mines & Geology
- Fire Services Training School

Jim Standaert (444- 5389, Office #113)
- Office of Public Instruction

Long Range Planning

Brian McCullough (444- 4580, Office #110A)
Jon Moe (444- 4581, Office #132)
- Long-Range Building
- IT bonding and general
- Oil Overcharge
- State Building Energy Conservation
- RIT interest grant and loan
- Treasure State Endowment

Revenue Estimating/Monitoring/Tax Policy

Terry Johnson (444- 2952, Office #115)
Jim Standaert (444- 5389, Office #113)
Roger Lloyd (444- 5385, Office #120)

Public School Funding

Jim Standaert (444- 5389, Office #113)

Information Technology

Mike Allen (444- 4101, Office #110A)

Support Staff

Cindy Campbell (444- 2986, Office #110A)
Diane McDuffie (444- 2986, Office #110A)

Fiscal Specialist

Jon Moe (444- 4581, Office #132)

Principal Fiscal Analysts

Terry Johnson (444- 2952, Office #115) – Revenue
Taryn Purdy (444- 5383, Office #114) - Budget

Legislative Fiscal Analyst & Director

Clayton Schenck, (444- 2988, Office #116)

TERMS AND CONCEPTS

This section of the manual is designed to provide an introduction to basic state governmental terms and concepts that will be applied throughout the manual and in the application section that follows. It is divided into three parts:

1) A glossary of common terms, concepts and commonly used acronyms;
2) Appropriations; and
3) Government accounting and fund types.

The section concludes with a reference section on the sources and uses of certain fund types in the last biennium.

This section is designed to answer the following questions:

1) What are the common fiscal terms and how are they defined?
2) How does state government get authority to spend money? What is the statutory and constitutional basis? Where does the legislature come in?
3) How does Montana account for funds? What are the main fund types and how can they be used?
4) Where does the money come from? How is the money spent?

Glossary and Acronyms

The next two sections defines some of the most commonly-used and important terms and acronyms. It is designed both as a preface to the manual that follows, and as a general reference source.

GLOSSARY

There are a number of terms unique to budgeting and appropriations. The most common terms, which are used throughout the manual and in other fiscal materials, are listed and defined below.

Appropriations – An authorization by law for the expenditure of funds or to acquire obligations.

Biennial – A biennial appropriation is an appropriation made in the first year of the biennium, where the appropriated amount can be spent in either year of the biennium.

Budget amendment – See "Budget Amendment" below.

Continuing – An appropriation that continues beyond one biennium.

Language – An appropriation made in the language of the general appropriations act for a non-specific or limited dollar amount. Language appropriations are generally used when an agency knows that it will be receiving federal or state special revenue funds but is uncertain as to the amount.

Line Item – An appropriation made for a specific purpose and which cannot be used for any other purpose. Line item appropriations highlight certain appropriations and ensure that they can be separately tracked on the state accounting system.

One-time – Appropriations designated by the legislature as one-time-only appropriations that are excluded from the base budget in the next biennium

Restricted – A restricted appropriation is designated for a specific purpose or function.

Statutory – Funds are appropriated in permanent law rather than an appropriation bill, which is temporary. All statutory appropriations references are listed in 17-7-502, MCA.

Temporary - An appropriation authorized by the legislature in the general appropriations act or in a "cat and dog" bill that is valid only for the biennium.

Appropriation Transfers (also see "Supplemental Appropriation") – The transfer of funds appropriated for the second year of the biennium to the first if the Governor determines that due to an unforeseen or unanticipated emergency there are insufficient funds in the first year for the operation of an agency.

Approving Authority – The entity designated in law as having the authority to approve certain budgetary changes during the interim. The approving authorities are:

1) the Governor or his/her designated representative for executive branch agencies;
2) the Chief Justice of the Supreme Court or his/her designated representative for the judicial branch agencies;
3) the Speaker of the House of Representatives;
4) the President of the Senate;
5) the appropriate legislative committees or designated representative for the legislative branch divisions; and
6) the Board of Regents of Higher Education or their designated representative for the university system.

Average Daily Population (ADP) – The population measure used to calculate population in the Montana correctional system. ADP is equivalent to one inmate incarcerated for one year.

Average Number Belonging (ANB) – The enrollment measure used for K-12 BASE aid calculations. ANB is the equivalent of one full-time student enrolled in school for the full school year.

Base – The level of funding authorized by the previous legislature.

Base Budget – The resources needed for the operation of state government that provide for expenses of an ongoing and non-extraordinary nature in the current biennium.

Benefits – An expenditure category used to account for the provision of payments or services by the government to individuals who qualify for receipt of those payments or services.

Biennial Appropriation – An appropriation that can be expended in either or both years of the biennium.

Biennium – A two-year period. For the state, this period begins July 1 of the odd-numbered years and ends June 30 of the following odd-numbered year.

Budget Amendments – Temporary authority to spend unanticipated non-general fund revenue received after the legislature adjourns. The funds must be used to provide additional services and cannot make a commitment of general fund support necessary for the present or future.

Cat and Dog Appropriations – One-time appropriations made in bills other than the general appropriations act.

Debt Service – The payment on outstanding bonds.

Decision Package – Separate, specific adjustments to the base budget. Decision packages can be either present law adjustments or new proposals.

Earmarked Revenue – Funds from a specific source that can be spent only for designated activity.

Enterprise Funds – A fund used to account for operations financed and operated. These are similar to private business enterprises, where the intent of the legislature is to finance or recover costs, primarily through user charges.

Federal Special Revenue – Accounts deposited in the state treasury from federal sources, to be used for the operation of state government.

Fiduciary Funds – Funds used to account for assets held by the state in a trustee capacity or as an agent for individuals, private organizations, other governments, or other funds.

Fiscal Note - An estimate, prepared by the Office of Budget and Program Planning, of the probable costs that will be incurred as the result of a bill or joint resolution.

Fiscal Year (FY) – The state's fiscal year is a 12-month accounting period beginning July 1 and ending June 30. Fiscal year 1999 refers to the fiscal year ending June 30, 1999. (Note: The federal fiscal year (FFY) is October 1 through September 30.)

Fixed Costs – Agencies are charged fees (fixed costs) for a variety of services provided by other state agencies (e.g., payroll service fees, rent, warrant writing services, and data network services.).

FTE – Full-Time Equivalent position, or the equivalent of one person working full-time for the entire year. Also used to denote full-time equivalent students in the Montana University System for purposes of calculating state support.

Fund – A fiscal entity with revenues and expenses, which are segregated for the purpose of carrying out a specific purpose or activity.

General Fund – Accounts for all governmental financial resources except those that must be accounted for in another fund.

General Fund Reversions – Unspent funds that are returned to the general fund at the close of the budget period.

Grants – An expenditure category used to account for the payment by a government entity to an individual or other entity who will perform a service.

HB 2 –The General Appropriations Act in which the legislature authorizes the funding for state government for the upcoming biennium. Each session, House Bill 2 is reserved for this purpose.

Indirect Cost – A cost necessary for the functioning of the organization as a whole, but which cannot be directly assigned to a specific division or agency.

Interim – The time between regular legislative sessions.

Internal Service Funds – Funds use to account for the financing of goods and services provided by one department or agency to other departments, agencies, or governmental entities on a cost-reimbursement basis.

Local Assistance – An expenditure classification primarily used to account for expenditures made for K-12 funding provided by the state to school districts.

MBARS – The Montana Budget Analysis and Reporting System provides all state agencies with one computerized system for budget development, maintenance and tracking, and is integrated with the State Accounting, Budget, and Human Resource System (SABHRS).

Mill – The property tax rate based on the valuation of property. A tax rate of one mill produces one dollar of taxes on each $1,000 of assessed property value.

New Proposals – Requests (decision packages) to provide new non-mandated services, to change program services, to eliminate existing services, or to change the source of funds.

Non-budgeted Expenditures – Accounting entries for depreciation, amortization, and other financial transactions that appear as expenditures, but don't actually result in direct dispersal of funds from the state treasury.

Operating Expenses – All expenditures that do not meet the personal services and capital outlay classification criteria. These expenditures include, but are not limited to, professional services, supplies, rent, travel, and repair and maintenance.

Other Funds –The capital projects and fiduciary funds are categorized as other funds.

> *Capital projects fund* – Accounts for financial resources used for the acquisition or construction of major capital facilities, other than those financed by proprietary funds or trust funds.
>
> *Fiduciary funds* – Includes trust and agency fund types used to account for assets held by state government in a trustee capacity or as an agency for individuals, private organizations, other governmental entities, or other funds.

Pay Plan – Provision by the legislature of a general adjustment to salaries and/or benefits paid to state employees. Also refers to the pay schedule listing the state salary rate for each classified position and according to that position's grade and the market rate.

Personal Services – Expenditures for salaries, benefits, per diem, and other additions, such as overtime.

Personal Services Snapshot – The point in time at which personal services attributes are captured and from which the personal services budget is determined. The Executive Budget personal services costs are based on a "snapshot" of actual salaries for authorized FTE as they existed in a pre-determined pay period in the base year.

POINTS – Process Oriented Integrated System currently being developed to support a revenue-processing center and to integrate various tax bases into a single system.

Present Law – The additional level of funding needed under present law to maintain operations and services at the level authorized by the previous legislature.

Present Law Adjustments – Requests (decision packages) for an adjustment in funding sufficient to allow maintenance of operations and services at the level authorized by the previous legislature (e.g., caseload, enrollment changes, and legally mandated workload).

Program – A group of related activities performed by one or more organizational unit for the purpose of accomplishing a function for which the government is responsible. Also, a grouping of functions or objectives that provides the basis for legislative review of agency activities for appropriations and accountability purposes.

Proprietary Funds – Funds that are either enterprise or internal service funds are designated as proprietary funds. Statute does not require that most proprietary funds be appropriated.

> *Enterprise funds* – Funds that account for operations financed and operated in a manner similar to private business enterprises, and through which the intent is to provide goods or services to the public.
>
> *Internal service funds*- Funds that account for the financing of goods or services provided by one department or agency to other departments or agencies of state government.

Reporting Levels – Budget units dividing agency and program budgets into smaller units for the purpose of constructing, analyzing, and approving budgets.

SABHRS – The State Accounting, Budget, and Human Resource System that combines the state's accounting, budgeting, personnel, payroll, and asset management systems into one single system.

State Special Revenue – Accounts for money from state and other nonfederal sources that is earmarked for a particular purpose, as well as money from other non-state or nonfederal sources that is restricted by law or by the terms of an agreement.

Supplemental Appropriation – An additional appropriation made by the governing body after the budget year or biennium has started. There are two types of supplemental appropriations that can be used to increase spending authority for a fiscal year: 1) a transaction in an even-numbered year that moves spending authority from the second year of the biennium to the first year; or 2) an appropriation passed and approved by the legislature to provide authority for the odd-numbered fiscal year ending the current biennium.

Vacancy Savings – The difference between what agencies actually spend for personal services and the cost of fully funding all funded positions for the entire year.

ACRONYMS

Acronyms are used to denote agencies, programs, and common terms. The following list includes some of the most common acronyms you are likely to encounter. All of the acronyms used to signify state agencies are included in one section for convenience.

State Agency and Significant Programs Acronyms

AES - Agricultural Experiment Station

BPE - Board of Public Education

MBMG – Montana Bureau of Mines and Geology

CC - Community Colleges

CES - Cooperative Extension Service

CHE - Commissioner of Higher Education

COPP - Commissioner of Political Practices

COT - College of Technology, followed by campus designation

CSED – Child Support Enforcement Division

DEQ – Department of Environmental Quality

DES – Disaster and Emergency Services

DMA – Department of Military Affairs

DNRC - Department of Natural Resources and Conservation

DOA – Department of Administration

DOC – Department of Commerce (see Corrections)

DOC – Department of Corrections (see Commerce)

DOJ – Department of Justice

DOLI - Department of Labor and Industry

DOR – Department of Revenue

DPHHS - Department of Public Health and Human Services

FCES - Forestry and Conservation Experiment Station

FSTS - Fire Services Training School

FWP - Fish, Wildlife, and Parks [Department of]

ISD - Information Services Division

LAD - Legislative Audit Division

LEPO - Legislative Environmental Policy Office

LFD - Legislative Fiscal Division

LSD - Legislative Services Division

MAC - Montana Arts Council

MBCC - Board of Crime Control

MDT – Montana Department of Transportation

MHP - Montana Highway Patrol

MHS - Montana Historical Society

MSDB - School for the Deaf and Blind

MSH - Montana State Hospital

MSL - Montana State Library (State Library Commission)

MSP - Montana State Prison

MSU - Montana State University, followed by campus designation i.e. MSU – Bozeman

MUS - Montana University System

MWP - Montana Women's Prison

OBPP - Office of Budget and Program Planning

OPI - Office of Public Instruction

PERD - Public Employees Retirement Division

POL Boards - Professional and Occupational Licensing Boards

PSC - Public Service Regulation

SOS - Secretary of State

SAO - State Auditor's Office

TRS - Teachers Retirement System

TSEP - Treasure State Endowment Program

UI – Unemployment Insurance

UM - University of Montana, followed by campus designation

ADP - Average Daily Population

ANB - Average Number Belonging

BASE Aid – Base Amount for School Equity Aid

C&A Grants - Cultural and Aesthetic Grants

CHIP – Children's Health Insurance Program

DP - Decision Package

ESA - Employment Security Account

FAIM - Families Achieving Independence in Montana

FF – Federal Fund

FTE - Full-Time Equivalent

FY - Fiscal Year

FYE - Fiscal Year End

GAAP – Generally Accepted Accounting Principals

GF - General Fund

GTB - Guaranteed Tax Base

HAC – House Appropriations Committee

I&I - Interest and Income

IT - Information Technology

JMG - Jobs for Montana Graduates

LFA – Legislative Fiscal Analyst

LFC – Legislative Finance Committee

LRBP - Long Range Building Program

LRP – Long Range Planning

MBARS – Montana Budgeting, Analysis, and Reporting System

MCA – Montana Code Annotated

MHSP - Mental Health Services Plan

NP - New Proposal

P&P - Probation and Parole

PL - Present Law

POINTS – Process Oriented Integrated System (Department of Revenue)

RATC – Revenue and Taxation Committee

RIGWAT - Resource Indemnity and Groundwater Assessment Tax

RIT - Resource Indemnity Trust

SABHRS – State Accounting, Budgeting, and Human Resources System (formerly MTPRRIME)

SF&C –Senate Finance and Claims Committee

SSR - State Special Revenue

TANF - Temporary Assistance for Needy Families

TEA 21 – Transportation Equity Act for the 21st Century

APPROPRIATIONS

Purpose: To provide an understanding of how state government gets the authority to spend money and the legislature's critical role in that process.

Content: This section includes a discussion of:

1) appropriation authority and its source; and
2) the three types of appropriations.

General Background

Appropriations are authorizations by law to spend money or acquire obligations. Montana's Constitution states that: "except for interest on the public debt, no money shall be paid out of the treasury unless upon an appropriation made by law..."

Who Can be Authorized to Spend State Money?

Montana's Constitution states that for an entity to receive authorization to expend state money it must be under the control of the state:

> "No appropriation shall be made for religious, charitable, industrial, or benevolent purposes to any private individual, private association, or private corporation not under control of the state."

A state agency can contract with private individuals or companies to provide services. The money the state agency spends on the contract appears as an expenditure on state accounting records. The state also provides appropriations to state agencies, which allow them to reimburse and/or pay local governments (such as to reimburse local governments for lost revenue as a result of changes in state tax law).

Can the State Operate at a Deficit as the Federal Government Does?

The Constitution says,"...[appropriations by the legislature shall not exceed anticipated revenue." Montana's budget, therefore, must balance before you can go home at the end of a session. This prohibition does not mean that revenues cannot fall short of anticipated levels or that expected expenditures can't increase during the interim. In case of those events, statute allows for a reduction in expenditures by the executive. If this measure is insufficient, the legislature must reconvene in special session. In addition to the citation above, the Constitution further states that "...[n]o state debt shall be created to cover deficits incurred because appropriations exceeded anticipated revenue." (This topic is discussed in more detail in the "Post Session and Interim Activities" Section)

Why Does the State Have Debt?

The state assumes debt primarily for the purpose of the acquisition of capital assets (which can include major information technology systems). Any authorizations of the assumption of debt are contained in separate bills and can only pass with a two-thirds majority of each house of the legislature, or by a majority of electors if the measure is before the electorate. The state sometimes borrows money to provide for short-term cash flow in anticipation of tax revenues.

What is the Legislature's Role?

The legislature's role is a critical one that involves broad powers. It is the legislature's role to determine the size and scope of state government, not only through the enactment of laws, but through the funding of that government. The legislature not only specifies how revenues are to be raised, but provides authorization for any entity to expend those revenues and dictates how revenues may be spent and for what purpose.

How Does the Legislature Provide an Authorization to Spend?

Appropriations are within the constitutional powers of the legislature. The legislature sets a maximum amount of authorization. It is up to the legislature to determine how specific they want to be about the purposes for which an appropriation can be spent.

Appropriations can be provided in one of three ways:

1) **Temporary appropriations.** These appropriations are made for a two-year period and then expire. Most appropriations to operate state government are made in one temporary appropriations bill – HB 2, the General Appropriations Act. Appropriations can be made in other bills as well, generally called "cat and dog" bills. While many functions of state government are ongoing, the legislature must still reauthorize funding for those functions every two years.
2) **Statutory appropriations**. These appropriations are made within codified law and do not expire. Rather than examine these appropriations every two years, the legislature allows the function to be funded on an ongoing basis, and must change statute to adjust the appropriation in any way. Because statutory appropriations are not regularly examined every two years, the legislature attempts to limit their use to those instances in which payments must be made, and/or in which the amount of the revenue collected or payments received cannot, with any reasonableness, be predicted for the purpose of providing a temporary appropriation.

Examples:

Because payment of debt undertaken for capital projects or to meet short-term cash flow needs is critical to the state's bond rating, any debt obligations are automatically paid through statutory appropriations and do not require specific legislative authorization.

The state makes certain payments to local governments based upon tax collections. The statutory appropriation provides for the appropriate level of payment.

3) **Budget amendments**. The legislature is not in continual session, and yet events that require action can occur during the interim between sessions. For this reason, the legislature has voluntarily given up a portion of its appropriations powers under very limited conditions. Various approving authorities (most often the Governor) can approve the addition of federal funds (and state special revenue funds if an emergency exists) received between sessions and not anticipated by the legislature. The funds cannot be considered part of ongoing operations and if they are to continue must be separated for specific authorization by the legislature in the next session.

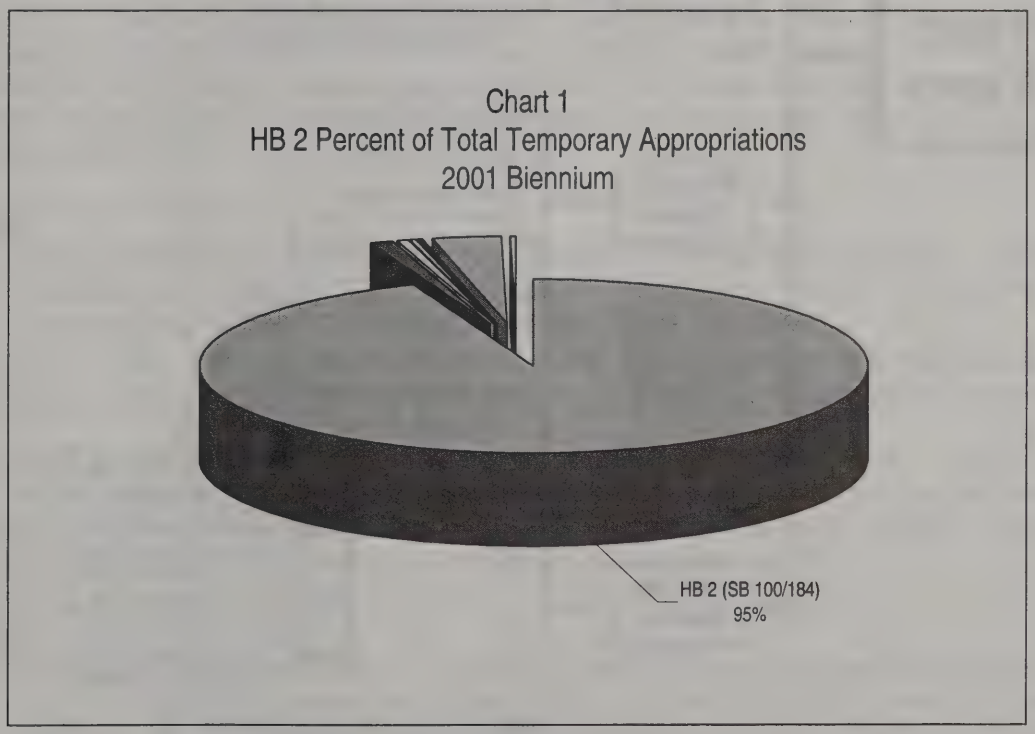
Other types of funds can also be paid out of the treasury, either by appropriation or under general laws or lawful contracts that allow the payment. Examples include:

- Proprietary funds
- Debt service funds
- Agency funds
- Expendable trust funds
- Private funds restricted by law or by the terms of an agreement

Pension funds are not considered a part of the treasury. (These funds are discussed in more detail in the "Fund Types" section of this manual.)

How Do Most Appropriations Get Made?

The following chart gives a breakdown of how state government got the money to operate in the 2001 biennium (after the May 2000 Special Session). The chart only includes general fund. Budget amendments cannot appropriate general fund. In the 2001 biennium, $29.7 million of the total $5.7 billion was added in budget amendments through October, 2000. General fund is discussed in the next section. Non-appropriated funds are not included.



As shown in the chart, the great majority of funds are appropriated in temporary appropriations bills.

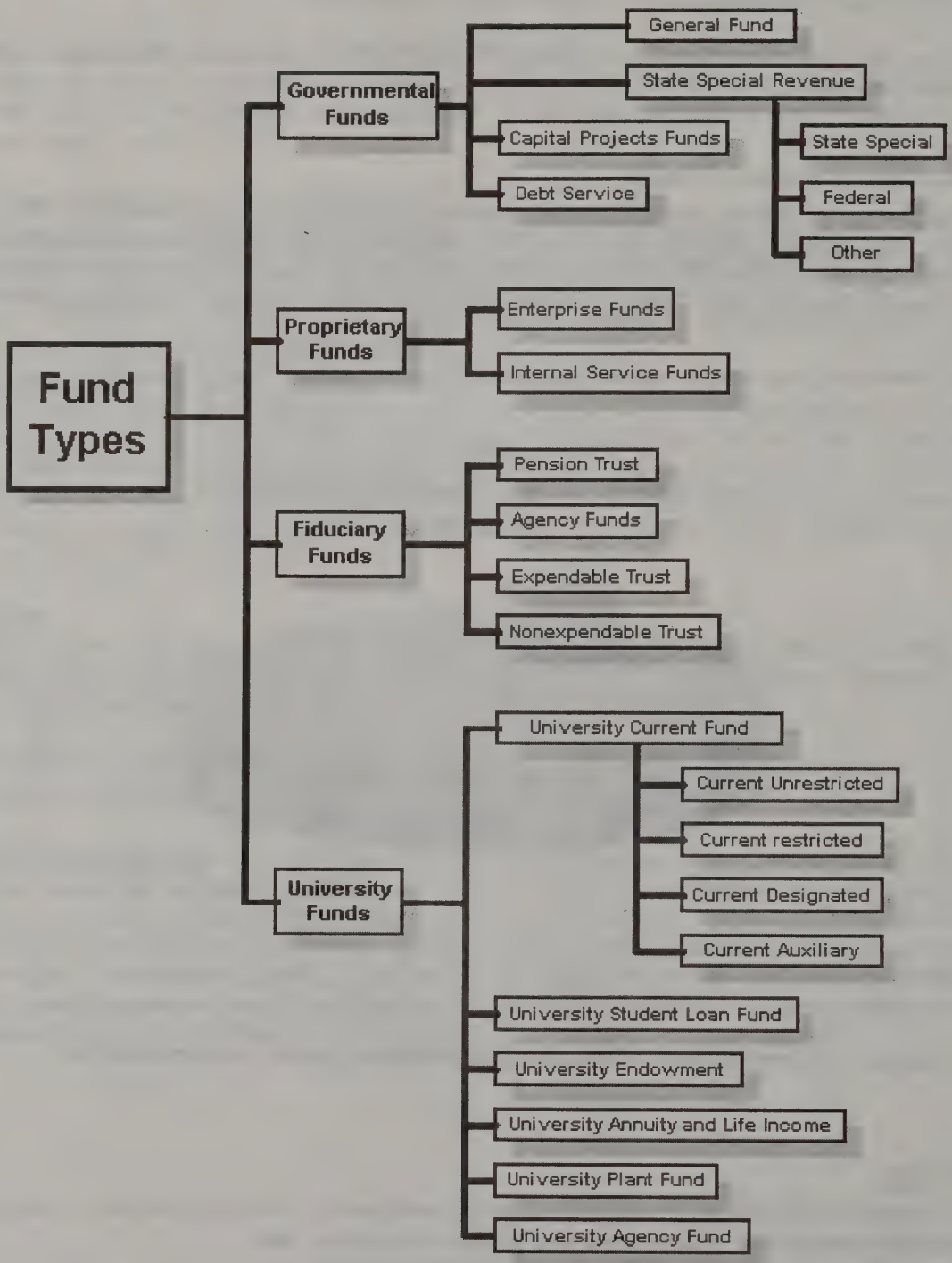
FUND TYPES

Purpose: To provide a reference document on the types of funds used in state governmental accounting and the circumstances under which those fund types are used so that the legislature can:

1) understand the importance and differences among fund types; and
2) apply this knowledge to the budget documents and discussions.

Governmental Accounting

Governmental accounting differs from private enterprise accounting in that the funding is segregated and defined by the source and use of the funding. There are four main groups of funds in state government accounting: 1) governmental; 2) proprietary; 3) fiduciary; and 4) university. The main groupings are divided into various types of funds. The fund types are further divided into accounts based upon a further differentiation in the source and use of the money (general fund is all one big account, although some funds are segregated within the fund). The following shows each type of fund, with sub-funds.



By providing an appropriation, the legislature is authorizing a unit of state government to spend money from a particular account. (As discussed within the description of each fund type, the legislature does not appropriate all funds.)

Governmental Funds

There are four main types of governmental funds: 1) general fund; 2) special revenue funds; 3) capital projects funds; and 4) debt service funds.

1) **General Fund** is defined as all financial resources except those required to be accounted for in another fund. General fund is primarily general tax revenues (generally applied across a very wide spectrum of taxpayers) used for general purposes of state government. Because general fund can be used for any purpose within the law, the legislature is usually more concerned with the use and availability of general fund than with the other sources of revenue.

2) **Special Revenue Funds** are defined as specific revenue sources that are legally restricted to expenditure for specified purposes. There are two main types of special revenue funds: a) state special revenue; and b) federal special revenue.

   a) State special revenue is defined as money from state and other sources that is earmarked for the purpose of defraying particular costs within an agency, program, or function. To provide a little further differentiation from general fund, state special revenue is derived from specific rather than general tax or fee sources, and is used to fund the costs of specific functions. There are hundreds of state special revenue accounts in state government. They range from the very large (e.g., accounts that receive all state fuel taxes) to the very small (e.g., the account that receives revenues and makes expenditures for the Mint Committee).

Examples:

- Fish, Wildlife, and Parks Conservation Licenses – revenue from the sale of conservation (hunting and fishing) licenses is deposited to a state special revenue account and used to support the operations of the Department of Fish, Wildlife, and Parks.
- Highways – revenue from state taxes on motor fuels is deposited to a state special revenue account and used for highway-related activities, including construction and maintenance.

   b) Federal special revenue is, as the name implies, revenue from federal sources. These funds are made available from the federal government for specific purposes and must be used within federal confines and guidelines. Federal funds can also come with requirements for state matching funds, or with the requirement that the state provide a certain level of overall state funding.

Examples:

- Medicaid – if Montana decides to participate with the federal government in providing health care to qualifying persons and if the federal government pays a portion of the costs (approximately 70 percent of most benefits costs), it must abide by federal regulations, including those that address eligibility.
- Environmental regulation – in many instances, state and federal environmental requirements are the same or very similar. If the federal government believes the requirements are similar enough, and that the state effort is sufficient to ensure that federal regulations will be enforced, it will provide financial assistance to the state's regulation effort. The state must usually provide matching funds or maintain a certain level of expenditure.
- Highways – federal funds from federal fuel taxes are provided to the state for certain types of highway construction and other highway-related expenses. The state must match construction funds on an 87 percent federal/13 percent state fund basis; federal funds cannot be used for certain purposes, including most maintenance costs.

- ➢ It is important to remember that Montana's state budget includes only those federal funds that support programs administered by a state agency. Consequently, only a fraction of the funds provided by the federal government to institutions and individuals actually flow through state government, and must be appropriated by the state legislature. Among the federal funds that do *not* go through the state budget are Social Security and Medicare payments, and all military (including veterans' benefits) expenditures.
- ➢ Most federal funds that do go through the budget are appropriated by the legislature in HB 2 or (in limited cases) another temporary appropriations bill.

3) **Capital Projects Funds** account for financial resources used for the acquisition or construction of major governmental general fixed assets. The primary capital projects account is the one used to account for revenues and expenditures for the state's long-range building program.

4) **Debt Service Funds** account for the accumulation of resources for the payment of general long-term obligation, both principal and interest. At the end of fiscal 1999 there were 10 debt service funds, including coal tax bonds, the long-range building program, and highway revenue bonds.

Proprietary Funds

There are two types of proprietary funds: 1) enterprise; and 2) internal service.

1) **Enterprise Funds** are used to account for operations that provide goods or services to the public on a user-charge basis for operations that essentially act as a business. As of the end of fiscal 1999, there were 17 enterprise funds, including the liquor warehouse, the state lottery, and the prison ranch.
2) **Internal Service Funds** are used to account for operations that provide goods or services to other agencies or programs of state government on a cost-reimbursement basis. As of the end of fiscal 1999, there were 24 internal service funds, including the Information Services Division, the Investment Division, and the state motor pool.

- ➢ With limited exceptions, the legislature does not appropriate proprietary funds.
- ➢ Enterprise fund operations must be reported to the legislature. Since any "profit" is deposited to the general fund, all costs to operate the state liquor warehouse and the state lottery must be appropriated.
- ➢ The legislature must approve all internal service rates charged to other state agencies for services.

Fiduciary Funds

This group includes trust and agency funds used to account for assets held by state government in a trustee capacity, as an agent for individual, private organization, other governmental entities, or other funds. There are five categories of trust and agency funds.

1) **Expendable trust funds** are used to account for assets held by the state in a trustee capacity, in which the trust principal and earnings may be expended. As of the end of fiscal 1999 there were 15 expendable trusts, including the Unemployment Insurance Trust Fund, private donations to the School for the Deaf and Blind, and the Historical Society General Trust.
2) **Non-expendable trust funds** are funds from which the trust principal may not be expended, but the interest can. As of the end of fiscal 1999 there were 9 non-expendable trust funds, including the Coal Tax Trust, the Resource Indemnity Trust, the Parks Trust, and the Cultural Trust.
3) **The Investment Trust Fund** is used to account for the investment of local government agencies' funds in the Short Term Investment Pool (STIP).
4) **Pension trust funds** include public employees' retirement systems.

5) **Agency funds** are used to account for assets held by the state as an agent for individuals, private organizations, other government agencies, and other funds. As of the end of fiscal 1999, there were 14 agency funds, including the investment pool and child support collections.

- Except in extremely limited cases, the legislature does not appropriate fiduciary funds such as the Coal Tax Trust.
- The legislature may appropriate interest on some trust funds.
- Pension fund payments are made under general laws and contracts, including child support collections under the Child Support Enforcement Program.
- The legislature does not appropriate agency funds.

University Funds

The university system's accounting is structured according to the College and University Business Association (CUBA) structure, which categorizes revenues and expenditures based upon source and use. University funds include six funds.

1) The **current fund** is used to fund day-to-day operations. This fund includes the current unrestricted fund, which can be used for any purpose. The current unrestricted fund includes those funds appropriated and/or reviewed by the legislature, as well as tuition revenues.
2) The **student loan fund** is money that may be loaned to students or others for university-related activities, such as education and research.
3) The **endowment fund** is essentially an expendable trust fund.
4) The **annuity and life income fund** includes the pension funds.
5) The **plant fund** is used for capital outlay purposes.
6) The **agency fund** includes funds for which the university system acts as custodian or fiscal agent.

- The legislature appropriates funds to the university system using the CUBA structure only in language. The legislature appropriates general fund, six-mill levy, and certain federal funds directly to the Commissioner of Higher Education. Those funds become university system funds when the Commissioner of Higher Education distributes them to the university units.
- While the legislature examines tuition in the context of the overall state support it wishes to provide the university system, these funds do not require an appropriation. Tuition and some fees are deposited to the current unrestricted funds. Other student fees are deposited to other types of funds, depending on source and use.

Why Do We Pay So Much Attention to General Fund?

You will notice that the general fund is the focus of virtually all of the attention before, during, and after the legislative session. This is due to the general fund's source and use, and the ways in which it differs from the other funds. It is also the focus of discussion because the primary source of general fund revenue touches virtually every citizen of the state. Income and property taxes are the primary sources of the general fund and are highly visible to the citizens, as are many of the largest programs and services funded by the general fund.

General fund can be broadly defined as revenues from general sources that can be used for any lawful purpose. Therefore, the amount of general fund available is very important in determining the overall level of funding available for a broad range of government services and, consequently, the overall size and scope of state government. The legislature must prioritize both revenues and expenditures from a very wide array of choices. Because it can be used for any lawful purpose, general fund is also the source of maintenance of the state's financial stability through the ending fund balance, which is used to cover fluctuations in revenue collections and expenditures.

As stated, state special revenues are, in most cases, specific fees and/or taxes used for specific purposes. Therefore, while the question of whether revenues are sufficient to support those specific purposes (and whether those revenues should be collected or activities funded) becomes relevant when developing individual budgets. The overall level of state special revenue, since it is not used for overall state government support, takes on a different meaning. The same is true of federal funds. These funds are given to the state for specific functions. The issue comes down to whether the state should accept the funds and perform the specific functions that are contingent on acceptance. The level of federal funding should, therefore, be examined within the context of functions, desired existence, size, scope, and level of other state funds that are required as a condition of receiving federal funds.

That said, state special and federal revenues – and the purposes for which they are raised and expended – do not exist in a vacuum. The level of federal and state special revenues available, and the purposes they are flagged to achieve, can have a major impact on the expenditures of the general fund. In addition, these state special and federal fees and taxes have a financial impact on citizens, and contribute to the overall costs of government. For these reasons, scrutiny of these expenditures and revenue sources is a vital part of the legislature's work during the session, and are discussed in detail within the individual agency narratives and budgets.

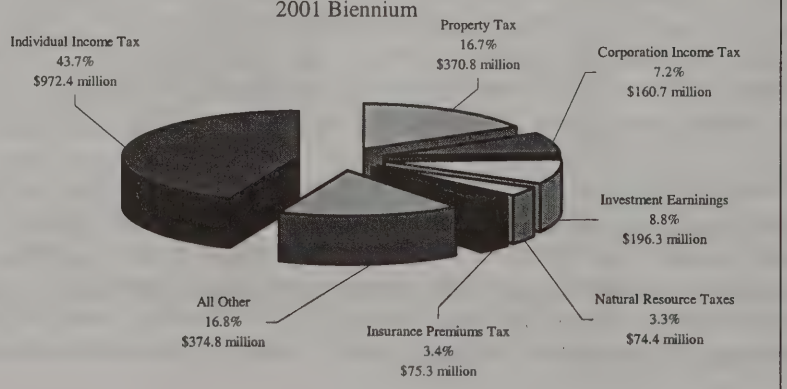
How Much of State Government is Funded with General Fund?

General fund represents about 40.6 percent of all funds appropriated by the 2001 legislature in regular and special sessions (Chart 3). All other funds consist of state and federal special revenue, and a small number of other funds.

Revenue Sources

As the earlier section of "funding" indicates, there are several types and many sources of revenue for state government. Besides the general fund, there are numerous state special revenue and federal funds accounts, and many more accounts in other fund types. For these many accounts, the sources of revenue vary with the account. For example, the source for a specific state special account might be license fees. Another might receive a tax dedicated to a specific purpose. A specific federal funds account might receive grant moneys or an allocation of funds for administrative costs of a federally supported program. Many accounts have multiple sources of revenue. General fund receipts come from many sources. Chart 2 shows which sources contribute the most dollars to the general fund. Individual income tax is the largest at 43.7 percent, followed by property tax at 16.7 percent. While the "all other" category is a large piece of the pie at 16.8 percent, it represents many smaller sources of general fund revenue.

Chart 2
Sources of General Fund Revenue
2001 Biennium

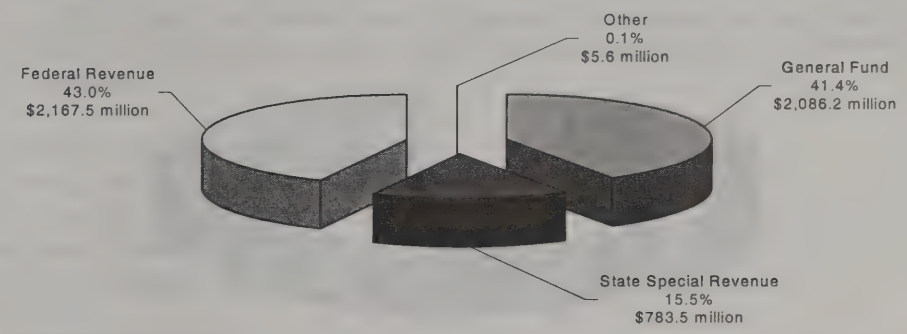


Expenditures

What Vehicle does the Legislature Use to Appropriate Money?

As discussed earlier, 95 percent of all general fund is appropriated in a temporary appropriation. Of those total temporary appropriations, over 94 percent is appropriated in one bill - HB 2 (the General Appropriations Act). HB 2 appropriates over 90 percent of all general fund. Chart 3 provides visual representations.

Chart 3
HB 2 Appropriations by Fund Type
2001 Biennium*
in millions



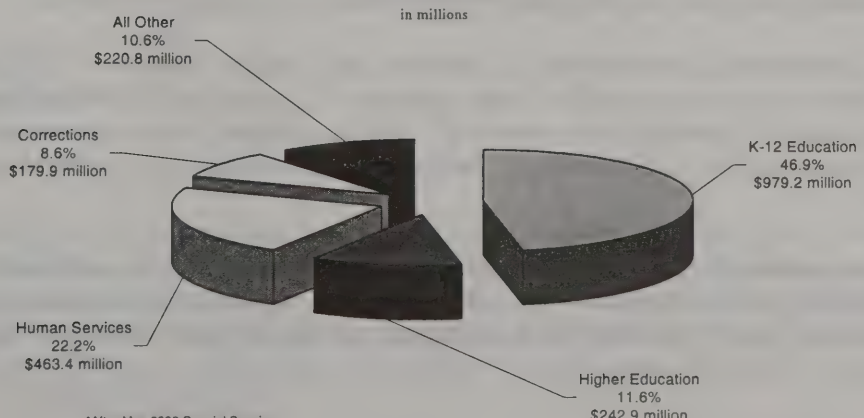
*After May 2000 Special Session

As shown, HB 2 is where it's at when it comes to funding state government. This bill, its review process during the legislature, and the ways in which legislators who are not members of either spending committee can become involved, are discussed later in this manual in the section entitled, "Appropriations Process."

Where Does Montana Spend Its Money?

The following charts show HB 2 appropriations, by area of state government. As shown, most general fund goes to K-12 education and human services.

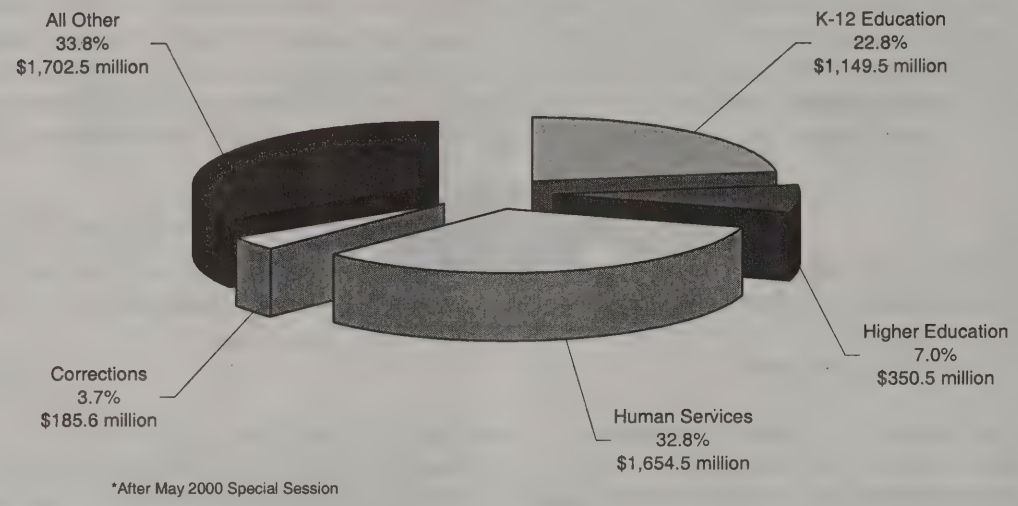
Chart 4
HB 2 General Fund Appropriations by Expenditure Area
2001 Biennium*
in millions



*After May 2000 Special Session

Total fund appropriations are different, as K-12 is significantly funded with the general fund, while the federal government pays a significant portion of the overall cost of human services programs. In addition, the federal government and the state special revenue funds are the exclusive sources of funding for highway-related expenditures, including construction and maintenance. The following chart shows total funds appropriated in HB 2 for the 2001 biennium, by area of expenditure.

Chart 5
HB 2 Total Funds Appropriations by Expenditure Area
2001 Biennium*
in millions



*After May 2000 Special Session

Budget Busters

The amount of money available to the legislature for discretionary spending fluctuates from biennium to biennium. However, certain areas of the budget can quickly eat up any level of discretionary funding available, and can even force other reprioritizations in existing programs. The two areas most likely to cause these issues are K-12 education and human services, particularly Medicaid. Their capacity to "bust the budget" is based upon two factors. The sheer size of these areas means that small fluctuations in costs can result in large sums of money. Both areas are highly influenced by factors beyond the control of the legislature, in particular, the number of students enrolled and the number of persons eligible for payments. (In the case of human services, the state must often follow strict federal requirements on eligibility and services in order to be eligible for federal cost sharing.) For these reasons, the legislature often has limited options for dealing with cost shifts.

In recent biennia, K-12 enrollment has been stagnant and Medicaid costs have grown at a historically-low rate. As a result, the legislature has been able to fund other priorities of government, including corrections and tax relief. However, the legislature should be aware that small changes in either area could consume a much greater proportion of discretionary funding. (For example, indications are building that Medicaid costs could begin climbing at faster rates.)

Budget busters can also occur on the revenue side of the equation. Revenues more directly react to a downturn in the economy resulting in less money to fund the established and sometimes expanding programs (caseload increases). Balancing revenues and expenditures is a major challenge for the legislature every session.

BUDGET BASICS AND REVENUE ESTIMATING

This section of the manual discusses basic budget concepts and describes how budgets are put together, as well as how the legislature estimates revenues for the purpose of balancing the budget.

This section is designed to answer the following questions:

1) How are budgets put together, and what must they contain? What legislative analysis of the Executive Budget is done?
2) How does the legislature estimate revenues in order to balance the budget?

BUDGET BASICS AND BUDGET DEVELOPMENT AND ANALYSIS

Purpose: To provide a guide as to how budgets are put together, provide interpretations of the terminology and concepts, including statutory requirements, and to offer insight into legislative analysis of the budget for use during the legislative session.

Content: This section includes the following:

1) the form, content, and terms used in budgeting;
2) the process by which the Governor develops the Executive Budget;
3) Legislative Fiscal Division analysis of the Executive Budget; and
4) a timeline of critical completion points in budget development and analysis.

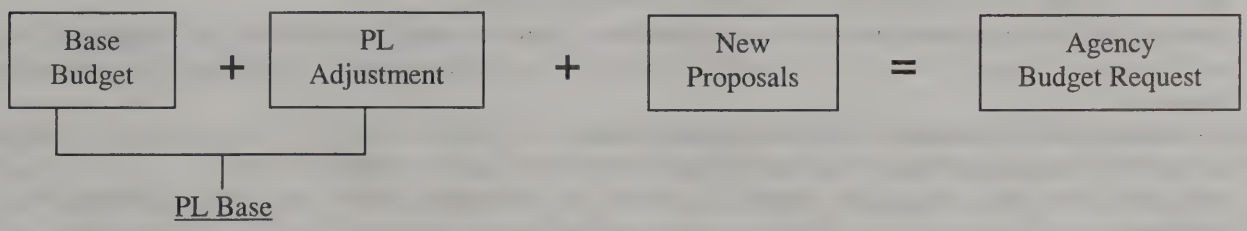
Budgeting Law

Montana's budgeting law is contained in MCA Section 17, part 7 of the Montana Code Annotated. At its core, the statute includes the guidelines for:

1) the form in which the budget is submitted;
2) the information it must include; and
3) due dates.

Form of the Budget

Budgets are composed of three parts: the base; present law adjustments; and new proposals. Budgets are compared as follows:



Base Budget

The legislature generally uses actual adjusted expenditures made during the last fully- completed year as a starting point for the next biennium's budget. Total expenditures are adjusted to remove items that are inappropriate for consideration as expenditures for on-going functions. Hence, the "adjusted" base budget used for budgeting differs from "actual" base consisting of total expenditures. Among the expenditures removed from the base are: statutory appropriations, since no appropriation in HB2 is needed; budget amendments; funds transferred from other agencies; and one-time expenditures.

Present Law Base

Present law base is defined in statute as "that level of funding needed under present law to maintain operations and services at the level authorized by the previous legislature, including but not limited to:

a) changes resulting from legally mandated workload, caseload, or enrollment increases or decreases;
b) changes in funding requirements resulting from constitutional or statutory schedules or formulas;
c) inflationary or deflationary adjustments; and
d) elimination of nonrecurring appropriations."

These changes or adjustments are referred to as "present law adjustments."

New Proposals

New proposals are defined in statute as, "requests to provide new non-mandated services, to change program services, to eliminate existing services, or to change sources of funding. For purposes of establishing the present law base, the distinction between new proposals and the adjustments to the base budget to develop the present law base is to be determined by the existence of constitutional or statutory requirements for the proposed expenditure. Any proposed increase or decrease that is not based on those requirements is considered a new proposal."

In most agencies, new proposals contain the major changes requested. However, in other agencies, present law adjustments are often the heart of changes in the budget and of policy issues. Primary examples in this case include the departments of Public Health and Human Services, Corrections, and Transportation.

Decision Packages

Decision packages are requested individual changes (either present law adjustments or new proposals) to the budget. In the Executive Budget and the LFD Budget Analysis, these are presented within the context of individual agency program budgets.

What Budget Submission Involves

Statute requires the Governor to include the following in the budget he or she submits to the legislature:

1) a summary showing a balance between proposed spending and projected revenues for the last completed fiscal year, the current fiscal year, and the two years of the next biennium (a balanced budget);
2) all FTE in the current and subsequent biennium;
3) mission and goal statements for each program in each state agency;
4) the base budget expenditures in the last completed fiscal year, estimated expenditures for the current year, and proposed expenditures for the coming biennium (including present law adjustments and new proposals);
5) a statement of recommendations for the next biennium;
6) a report on enterprise funds and fees and charges in the internal service fund type; and
7) any other financial or budgetary material agreed to by the budget director and the Legislative Fiscal Analyst.

An example of this information is provided in the "Budget Materials" section of this manual.

The Budget Development and Analysis Process

Several months prior to the convening of the legislature, agencies submit proposed spending increases or decreases to the Office of Budget and Program Planning (OBPP) through the executive planning process (EPP). By July 1, the Governor must send instructions to agencies for completion of budget submissions.

Following submission of the agency request, OBPP develops the Executive Budget, which must be submitted to the Legislative Fiscal Division (and the legislature) in written form by November 15 (the Governor has until December 15 to make changes to this budget). A copy of this budget is made available at this time, in print and on the Internet. If a new Governor is taking office, he or she has until January 7 to submit recommended changes to the proposed budget.

ANALYSIS BY THE LEGISLATIVE FISCAL DIVISION

The Legislative Fiscal Division conducts a detailed and comprehensive analysis of the Executive Budget, as well as other fiscal policy issues. The purpose of this analysis is to provide the legislature with an independent, non-partisan source of information with which to make informed decisions about the Executive Budget and other revenue and appropriations policies.

This analysis is contained in a *Budget Analysis* document separate from the Executive Budget. The *Budget Analysis* is presented to the legislature on the first day (or earlier) of the legislative session and distributed to all legislators, agencies, and interested members of the public. The analysis is also available on the Internet.

Both the Executive Budget and *Budget Analysis* are presented in the base/present law/new proposals format required in statute. The Executive Budget contains a summary of major present law adjustments and all new proposals for each agency. This budget is designed to convey general policy and total appropriations proposed by the executive. The *Budget Analysis* provides a more detailed explanation and analysis, and is designed as a tool for use by the legislature throughout the appropriations process. Increases or decreases in the base budget for any agency are defined and identified in such a way as to allow for direct legislative action.

A guide to the components of the analysis document and how to read and use it is included in the section of this manual on "Using the Budget Materials."

The schedule of budget development milestones and timelines is also included for reference.

GENERAL HB 2 BUDGET PREPARATION AND SUBMITTAL TIMELINE

Note: The following timeline begins in the year preceding the legislative session.

January through April – Agencies develop proposals for spending changes for the next biennium and submit them to the Office of Budget and Program Planning.

April through August – OBPP negotiates with agencies as to which spending change requests the agencies can pursue in their formal budget submissions.

August and September – Agencies submit their budget requests to OBPP and the Legislative Fiscal Division (LFD).

August through November – OBPP and the Governor develop the Executive Budget for submission to the legislature and the LFD.

September and October – The LFD and the executive branch develop revenue estimates.

September through December – The LFD analyzes agency submissions and the Executive Budget, as well as other fiscal issues impacting the state, and runs a projection of the state's financial position through the next biennium

November 1 – Last date by which the Executive Budget present law must be submitted to the LFD (statutory).

November 15 – Date by which the executive pay plan must be submitted to the LFD (statutory).

November 15 – The Executive Budget is submitted to the legislature and the LFD (statutory).

Mid-November –The Revenue and Taxation Committee meets to finalize revenue estimates for presentation to the legislature

December 15 – Last date by which any changes to the Executive Budget can be made (statutory).

Just prior to start of session – LFD releases its Analysis of the Executive Budget and state overview.

January 7 – Date by which the Governor-elect must submit his or her recommended changes to the proposed budget to the legislature and the LFD

ESTIMATING ANTICIPATED AVAILABLE GENERAL FUND – HJR2

Purpose: To describe how the legislature estimates revenue in order to balance the budget.
Content: This section includes:

1) a description of the pre-session revenue estimating process; and
2) the vehicle and process used during the legislative session.

Legislative Responsibility

As stated earlier, the legislature cannot appropriate more expenditures from the general fund than can be met through anticipated available funds. Therefore, the legislature must estimate general fund revenues (and other adjustments to the general fund balance) during the legislative session. This revenue estimate is formally adopted in House Joint Resolution 2 (HJR 2).

The Pre-Session Process

Prior to the start of the legislative session, the Legislative Fiscal Division and the executive branch provide and present independent estimates of general fund collections along with their assumptions as to the value of the underlying economic factors that determine revenue collections. These underlying economic factors include such dynamics as the price of oil, wage and income growth, or interest rates, among others. This process begins in earnest in September and concludes in the first half of November.

During the month of November, the Revenue and Taxation Committee (RATC) of the legislature reviews the economic assumptions and makes a formal recommendation relative to those assumptions and to the resulting general fund estimate for presentation to the legislature. These estimates and assumptions are included in HJR 2, which is introduced at the start of the session. The legislature and the Governor are required to use these estimates until amended or approved by the legislature.

The Legislative Session

HJR 2 now follows a path similar to other resolutions. It is heard by the House Taxation Committee before proceeding to the full House and then to the Senate. The resolution is refined and amended throughout this process.

Once the resolution has passed both houses, it is signed by the Speaker of the House and the President of the Senate. As a joint resolution, it does not require the signature of the Governor. The legislature must use the revenue estimates included in HJR 2 when determining if the budget is balanced.

HOW DOES THE BUDGET AND APPROPRIATIONS PROCESS WORK

This section discusses how the budgeting and appropriations process works in Montana, and applies the basic terms and concepts discussed in the first section of the manual.

This section is designed to answer the following questions:

1) How does the legislature review appropriations bills, including the general appropriations act?
2) How could a legislator who is a member of a committee that is reviewing spending bills still have an influence on the decisions made?

APPROPRIATIONS BILLS IN THE LEGISLATIVE PROCESS

Purpose: To provide information on temporary appropriations bills (valid for only two years) in general and the General Appropriations Act (HB 2) in particular, with an eye to enabling legislators to participate in the process. This section concentrates on HB 2, but briefly discusses other appropriations bills as well.

Content: The section includes the following:

- A description of the three major types of appropriations bills;
- A discussion of where appropriations bills are heard;
- A discussion of the process by which appropriations bills are reviewed and acted upon;
- Information on critical decision points; and
- A schedule of approximate dates of action.

ASSIGNMENT OF APPROPRIATIONS BILLS

The principal appropriation committees of the legislature are:

1) the House Appropriations Committee; and
2) the Senate Finance and Claims Committee.

All appropriations bills must originate in the House of Representatives (the House). These bills, and other bills with major fiscal impact, are assigned to the Appropriations Committee for review and recommendation to the full House. Appropriations bills can be transmitted to the Senate from the House no later than the 67th day, as opposed to the 45th day for most other bills. After transmittal, appropriations bills are assigned to Finance and Claims for review and recommendation to the full Senate. (While appropriations bills must originate in the House, the House may amend appropriations on to transmitted Senate bills.)

TYPES OF TEMPORARY APPROPRIATIONS BILLS

Temporary appropriations bills are the vehicles by which the legislature provides funding for most functions in state government (see the "Key Terms and Concepts" sections for background information). Temporary appropriations bills can be classified in three categories: the General Appropriations Act (HB 2); long-range planning bills; and other appropriations (frequently referred to as cat and dog) bills.

HB 2 - HB 2 contains the bulk of appropriations to support the on-going functions of state government. As such, it is large and complex, containing individual appropriations for each program in state government, as well as the results of the legislative review of all aspects of agency operations.

Long-Range Planning Bills – Bills addressing Montana's long-term capital requirements, the payment for which may be either through cash or the acquisition of debt, are written and reviewed separately from HB 2. The following lists the major long-range planning bills reviewed during each legislative session. Other capital asset bills may be heard as well, depending upon current issues and legislative interest.

- **HB 5** and **HB 14** contain the cash and bonding authorizations (respectively), for the long-range building program. Specific projects are approved and funded through these bills.

- **HB 6 and HB 8** are the bills that fund the state's renewable resource grants and loans, the purpose of which is to fund projects that promote the "conservation, development, management, and preservation of water and other renewable resources." The grants and loans are funded with Resource Indemnity Trust (RIT) funds.

- **HB 7** funds the RIT Reclamation and Development Grant Program. These grants are used to address environmental damage due to non-renewable resource extraction and to develop and ensure the quality of public resources.

- **HB 9** funds cultural and aesthetic grants for protection of works of art in the State Capitol and other cultural and aesthetic projects. The grants are primarily funded through coal severance tax revenues.

- **HB 11** includes authorizations from the state's Treasure State Endowment Program (TSEP), which is an infrastructure-financing program funded from the coal trust.

- **HB 10** and **HB 12** allocate oil overcharge funds received by the state as a result of a federal court action holding that certain oil producers violated federal oil price and allocation controls between 1973 and 1981. The program is used to fund energy conservation and low-income assistance programs.

Other Appropriation – Frequently Referred to as Cat and Dog Bills
This designation includes any other bill with a valid appropriation included in its body. Most cat and dog bills include appropriations to expend funds in the next biennium. However, in addition to those bills, there are three major cat and dog bills that appropriate money in the current year, as opposed to the next biennium.

- **HB 1** contains all appropriations needed to operate the legislative session, and includes provisions for session staff and printing costs.

- **HB 3** contains all requests for additional general fund and state special revenue money in the current year with which to address anticipated shortfalls.

- **HB 4** includes appropriations for federal funds (and limited state special revenue and other funds) for the current year, received by an agency but for which it doesn't have spending authority.

APPROPRIATIONS PROCESS

The following discusses the process through which temporary appropriations bills are reviewed and acted upon by the legislature. Please note that the process for HB 2 and all long-range planning bills is the same. For brevity, this section includes a discussion of HB 2 only.

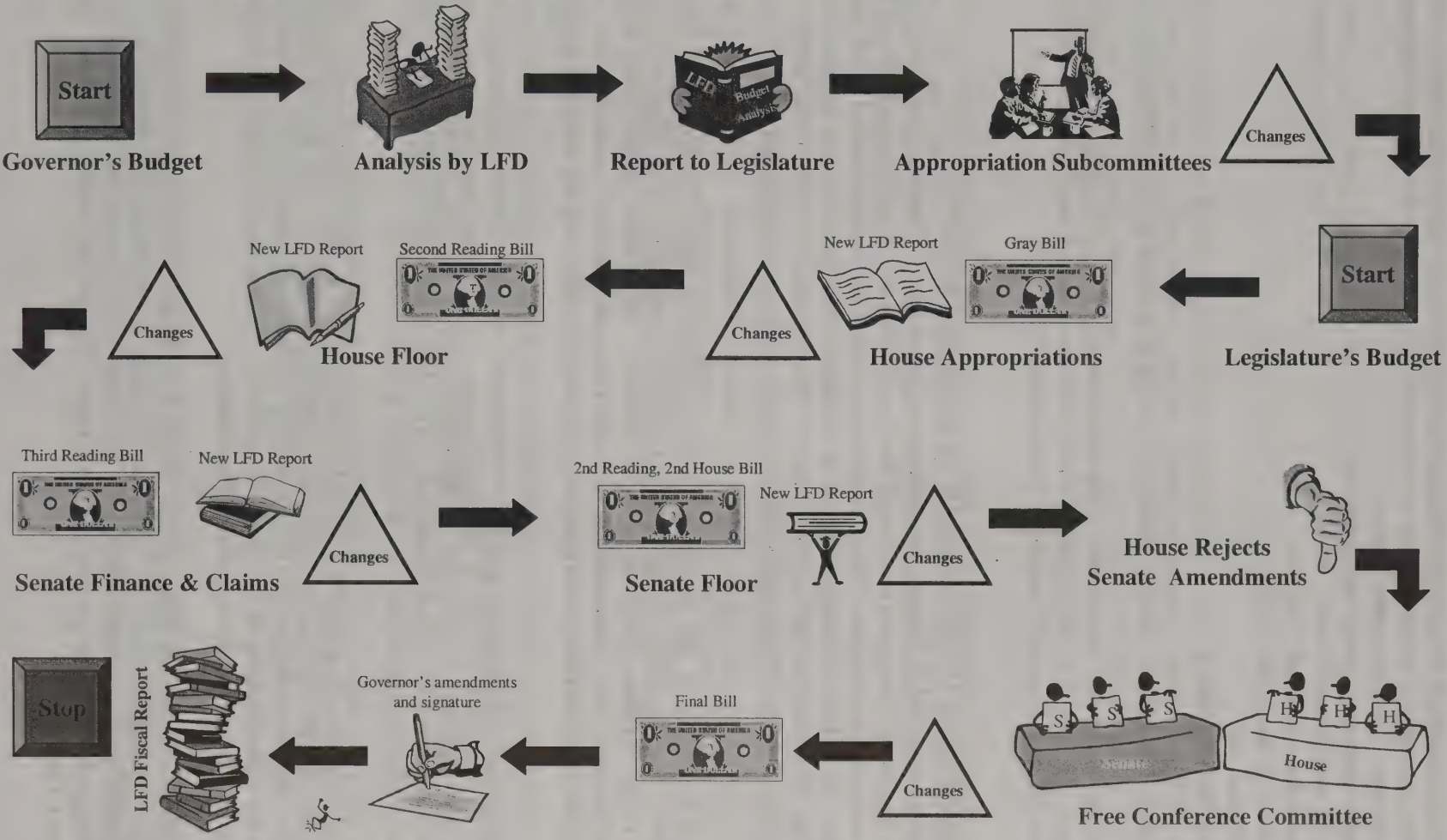
House Bill 2

The legislative session stage of the appropriations process begins with the introduction of the General Appropriations Act (HB 2), the bill in which the bulk of funding for state government operations is contained. At the introductory stage, the bill includes the provisions of the Executive Budget. The bill is assigned to the House Appropriations Committee. (Note: A general calendar of the bill process is included: see page 28. Also included is a visual representation of the HB 2 appropriations process: see next page.)

The House Bill 2 Appropriation Process

Article VIII,Section 14, Montana Constitution: *Prohibited payments. Except for interest on the public debt, no money shall be paid out of the treasury unless upon an appropriation made by law and a warrant drawn by the proper officer in pursuance thereof.*

It's been said that *"perhaps the greatest power of the legislature is the power to appropriate money."*



Updated by the LFD
May 31, 2000

Subcommittee Review

Because of the complexity and size of HB 2, sections of the bill are assigned to various subcommittees of the Appropriations committee. Subcommittees are comprised of members of the Appropriations and the Finance and Claims committees. These subcommittees are:

1) General Government and Transportation;
2) Health and Human Services;
3) Natural Resources and Commerce;
4) Corrections and Public Safety;
5) Education; and
6) Long-Range Planning.

(Note: A listing of the agencies heard in each subcommittee is included in this document. Please see page 38.)

The chair of each committee is a member of the House majority party. The vice-chair is a member of the Senate majority party. Analysts from the Legislative Fiscal Division staff each subcommittee. Analysts from the Office of Budget and Program Planning represent the Governor at all meetings.

If A Legislator Wants to Get Involved, but is Not a Subcommittee Member

The bulk of the review of HB 2 takes place at the subcommittee level. Therefore, it is during the subcommittee process that legislators who are not members of the subcommittee and yet who have an interest in any portion of the budget may want to participate. The subcommittees review information presented in the Executive Budget, in the Legislative Fiscal Division Budget Analysis of the Executive Budget, and hears testimony from the agency and the public. The subcommittee then finalizes all recommendations for report to the Appropriations Committee. This process generally takes between 6 and 8 weeks, and is concluded before the 45th legislative day.

Prior to the beginning of the legislative session, Legislative Fiscal Division staff drafts a calendar of subcommittee action for review and approval by the subcommittee chair. This schedule is available through the Legislative Fiscal Division offices and over the Internet. The schedule details when certain programs and agencies will be heard in the subcommittee, and offers preliminary dates of executive action. Legislators should consult the calendar to determine when agencies or programs in which they are interested are being heard.

House Appropriations Committee Review

Following subcommittee review, the subcommittees report to the House Appropriations Committee (Appropriations) with their recommendations. The Appropriations Committee must consolidate separate subcommittee recommendations into a comprehensive appropriations bill.

To assist in this process, the Legislative Fiscal Division produces a "gray" bill and an appropriations "narrative" during the mid-session break. The gray bill is produced strictly to help provide clarity in terms of the subcommittee's recommendations, and to make writing and following introduced amendments easier. It is neither the first nor the second reading of the bill. The narrative is a written report explaining the recommendations and major policy decisions of the appropriations subcommittees.

The Appropriations Committee hears specific appeals from agencies concerning subcommittee action, compares subcommittee recommendations to projected revenues, and considers amendments to subcommittee recommendations from committee members. The committee substitutes its bill for the bill embodying the Executive Budget for debate on the floor of the full House. This process commences shortly after the 45th day and generally takes 2 to 4 days.

This is the first stage in the process through which true amendments to the bill are heard. Prior to this time, subcommittees use the Legislative Fiscal Division *Budget Analysis* as the working document. During the House Appropriations stage and at all times thereafter, committees will use the actual copy of the bill and draft, and will act on amendments to that bill.

Legislative Fiscal Division staff then produces the second written copy of the bill, and updates the narrative for presentation to all members of the House.

House Floor

Prior to introduction of the bill on the floor, Legislative Fiscal Division staff drafts amendments at the request of House members. Floor debate in the House generally requires at least one entire legislative day. The chairman of Appropriations introduces the bill; subcommittee chairmen summarize each section. Legislative Fiscal Division staff is on the floor to assist subcommittee chairmen. Staff is also present to assist any legislators who may have questions or wish to introduce additional amendments.

Senate Finance

The Finance Committee generally takes several days to review the bill. Each subcommittee chairman summarizes major policy issues within each section. The committee generates a series of amendments that provide the basis for much of the debate on the Senate floor. Agency input is generally confined to specific appeals from House action, and to answering committee questions.

Senate Floor

Prior to Senate floor action, Legislative Fiscal Division staff draft amendments to the bill as requested by Senators. On the Senate floor, the subcommittee vice-chairs summarize each section of the bill. Legislative Fiscal Division staff is again present on the floor to assist vice-chairs, as well as any Senators who may have questions or who wish to introduce amendments. Debate on the Senate floor generally focuses on amendments generated by the Finance Committee, a process that has traditionally taken one day to complete.

Conference Committee

If the House rejects the Senate's amendments, the bill goes to conference committee. The conference committee is traditionally a free conference committee to allow amendments to any item in the bill. In addition, the free conference committee may recommend amending the appropriations bill to conform with other legislation that carries an estimated fiscal impact, and which has passed but does not carry appropriations. The conference committee reports to the full legislature. Each house then rejects or approves the bill.

The Governor has full, line item, and amendatory veto power over the bill. The Governor can reject or sign the bill in total, remove specific line items, or propose amendments to the bill. The legislature must vote on any proposed amendments. If the legislature rejects the amendments, the Governor must sign or veto the bill.

Cat and Dog Bills

Other appropriations bills are reviewed in the same manner that bills without appropriations are reviewed. They are usually referred to the House Appropriations Committee and are generally not referred to a subcommittee for prior review. The deadline for transmittal of appropriation bills to the second house is the 67th, rather than the 45th day (for non-appropriation bills) of the legislative session.

EXAMPLE OF TRADITIONAL APPROPRIATIONS SCHEDULE

Legislative Days	
1-6	FEED BILL - Prepared by the Legislative Services Division. There will be hearings in both the House Appropriations and Senate Finance committees.
2-43	SUBCOMMITTEE HEARINGS on HB 2 - Subcommittees meet three to four hours, five days a week.
50-55	SUBCOMMITTEES REPORT HAC ACTION ON HB 2 -- On successive days, the five subcommittees present their reports to the House Appropriations Committee (HAC). The hearings usually takes most of the morning.
56-61	PREPARATION OF BILL AND NARRATIVE -- The LFD staff takes the action of the full HAC, incorporates it into the original draft, and submits it to the Legislative Services Division for formal drafting. The HAC version of the bill is a clean second reading copy that is substituted for the bill entered originally. The LFD staff also updates the subcommittee narrative so that it is consistent with the full committee actions. The updated narrative, along with the bill, is distributed a day or two prior to the scheduled debate. HAC "CATS AND DOGS" HEARINGS. LONG-RANGE PLANNING SUBCOMMITTEE -- Complete HAC action and report all long-range planning bills to the floor.
64-65	APPROPRIATIONS BILL SECOND READING -- The bill is debated in sections. Legislative Fiscal Division staff update the narrative following House action.
65	HOUSE THIRD READING OF APPROPRIATIONS BILL.
66-76	SENATE FINANCE HB 2 – On successive days, the committee takes action on HB 2, by section. Staff updates the narrative to reflect committee action. This is the last time the narrative is updated.
79	SENATE FLOOR DEBATE ON APPROPRIATIONS BILL.
80	SENATE THIRD READING ON APPROPRIATIONS BILL.
80	Senate returns appropriations bill to the House.
81-85	Free conference committee on long-range planning and major appropriations bills.

AGENCY SUBCOMMITTEE GROUPINGS

GENERAL GOVERNMENT AND TRANSPORTATION (Section A)

- Legislative Branch
- Consumer Counsel
- Judiciary
- Montana Chiropractic Legal Panel
- Governor's Office
- Secretary of State
- Commissioner of Political Practices
- State Auditor's Office
- Transportation
- Revenue
- Administration
- Appellate Defender Commission

HEALTH AND HUMAN SERVICES (Section B)

- Public Health and Human Services

NATURAL RESOURCES AND COMMERCE (Section C)

- Fish, Wildlife and Parks
- Environmental Quality
- Livestock
- Natural Resources and Conservation
- Agriculture
- Commerce

INSTITUTIONS AND PUBLIC SAFETY (Section D)

- Board of Crime Control
- Justice
- Public Service Regulation
- Corrections
- Labor and Industry
- Military Affairs

EDUCATION (Section E)

- Office of Public Instruction
- Board of Public Education
- School for the Deaf and Blind
- Montana Arts Council
- State Library Commission
- Montana Historical Society
- Montana University System
  - Commissioner of Higher Education
  - Six University Units
  - Colleges of Technology
  - Community Colleges
  - Agricultural Experiment Station
  - Cooperative Extension Service
  - Forestry and Conservation Experiment Station
  - Bureau of Mines
  - Fire Services Training School
  - Distance Learning
  - Rural Physicians Residency

LONG-RANGE PLANNING (Section F)

- Long-Range Building Program
- Treasure State Endowment Program
- Oil Overcharge Program
- State Building Energy Conservation
- Resource Indemnity Trust Interest
- Grant and Loan Program
- Cultural and Aesthetic Grant Program
- Information Technology Bonds

OTHER LEGISLATION WITH FISCAL IMPACTS

The previous section discussed HB 2 and bills containing other temporary appropriations. This section discusses bills with fiscal impact that do not have contain temporary appropriations. It is divided into three parts:

1) Bills with fiscal impact and fiscal notes;
2) Creating and reviewing a bill with a statutory appropriation; and
3) Creating a bill with a state special revenue account.

The section is designed to answer the following questions:

1) How do other bills with fiscal impact get reviewed?
2) What are fiscal notes and what do they contain?
3) What should you remember when writing or reviewing bills that add statutory appropriations or state special revenues?

BILLS WITH FISCAL IMPACT AND FISCAL NOTES

Purpose: Provide information on bills with fiscal impact and the method by which that fiscal impact is estimated and used.

Content: This section includes a discussion of:

1) when fiscal notes must be developed and attached to bills;
2) the process by which a fiscal note is written; and
3) bill sponsor review and potential recourse in cases of disagreement.

The section also includes an annotated fiscal note showing the various components and the purpose of those components.

Fiscal Note Creation Requirements

Section 5-4-201 of the Montana Code Annotated states that "...bills reported out of a committee of the legislature having an effect on the revenues, expenditures, or fiscal liability of the state or of a county or municipality, except appropriation measures carrying specific dollar amounts, shall include a fiscal note incorporating an estimate of such effect."

A fiscal note contains estimates of anticipated financial impacts generated by passage of the bill. If amendments significantly change the bill, an updated fiscal note may be requested. Bills with a fiscal impact differ from cat and dog bills in that they do not include appropriations. (Note: On some occasions, a cat and dog bill will also carry a fiscal note.)

How Are Fiscal Notes Used?

The fiscal note accompanies the bill through the deliberation process. The financial impact if the proposed bill is passed is one consideration used to determine whether the bill *should* or *should not pass* in its current form.

If a bill is shown to have expenditure impacts, it is up to the legislature to decide whether any funds will be added to or removed from the agency's appropriation in HB 2. The legislature is usually asked to make this decision during conference committee deliberations at the end of the legislative session. If funds are not added, the agency must still follow the law, but must do so within existing appropriations.

If the bill has an anticipated revenue impact, the legislature must take this impact into consideration when estimating revenues, in order to provide a balanced budget as required by the Constitution.

Who May Request Fiscal Notes?

Fiscal notes may be requested by a number of parties, including:

1) the presiding officer of each house, who determines the need for the fiscal note when the bill is introduced;
2) a committee considering the bill;
3) a majority of the members of the house where the bill is receiving a second reading; or
4) the bill sponsor, through the presiding officer.

Who Writes Fiscal Notes?

The Governor's Office of Budget and Program Planning (OBPP) writes all fiscal notes. They perform this function with the assistance of the agencies affected by the proposed legislation.

The budget director, who signs all fiscal notes, must complete the fiscal note within six days, although additional time may be requested.

What do Fiscal Notes Contain?

Fiscal notes must contain, if possible, in dollar amounts:

1) the estimated increase or decrease in revenues or expenditures;
2) costs that can be absorbed without additional funds; and
3) long-range financial implications.

Any bill that carries a financial impact to local government or school districts must be accompanied by an estimate of those impacts. The notes must include the result of review by the budget director, if it proposes to dedicate revenue, create or amend a statutory appropriation.

Attached is an annotated fiscal note from the 1999 Legislative Session, showing the various components.

REVIEWING A FISCAL NOTE

Let's assume for a moment that you have written a bill. You might wish to consult with the budget director over a fiscal note written for your bill. There are a number of questions you might want to ask when reviewing a fiscal note, including but not limited to the following.

- Do the assumptions appear reasonable?
- Is the cited funding source appropriate?
- Does the fiscal note appear to address all the factors you intended in the bill?
- Is it overlooking any factors that could impact the assumptions?
- Are there changes to the bill that might maintain its integrity and yet reduce the financial impacts?

What if You Disagree?

Again assuming that you have written a bill, if you feel a fiscal note is unfair or incorrect, you can challenge the findings of the budget director. There are a couple of options available to you if this occurs.

- Do not sign the fiscal note. Not signing the fiscal note conveys disagreement.
- Create a sponsor's alternate fiscal note, which accompanies the legislation throughout the deliberation process.

Remember that you have only 24 hours to convey concurrence, request additional time to consult with the budget director, or elect to prepare a sponsor fiscal note.

FISCAL NOTE

Bill #: HB0041 **Title:** Extend surcharge for funding court information technology

Primary Sponsor: Toni Hagener **Status:** As introduced

Sponsor signature — Lewis, Budget Director — Date

Funding source is state special revenue

Estimates of total additional expenditures required as a result of this bill are listed here, by year.

Fiscal Summary

	FY2000 Difference	FY2001 Difference
Expenditures:		
State Special Revenue	$995,676	$995,676
Revenue:		
State Special Revenue		$995,676
Net Impact on General Fund Balance:	$0	$0

Any identified impacts are discussed later.

Revenues will also be increased as a result of passage of the bill, making its fiscal impact neutral to the state.

Issues with the bill as written or as intended are noted here and discussed later.

Yes	No		Yes	No	
X		Significant Local Gov. Impact		X	Technical Concerns
	X	Included in the Executive Budget	X		Significant Long-Term Impacts

If funds are already included for this function in the Executive Budget, it is noted here.

Any identified long-term impacts are discussed later.

Fiscal Analysis

ASSUMPTIONS:

1. Revenue and expenditures are based on FY 1998 actual revenue and expenditures.
2. It is estimated that the surcharge will be waived approximately 25% of the time.
3. There will be approximately 5.00 FTE to continue machine and software installation and upgrades, and to provide maintenance and support in the 206 courts in Montana.
4. Approximately $600,000 per year in computer hardware, software and upgrades will be provided to the courts while about $395,000 will be used for travel, other operating expenses and personal services.

This section lists all of the assumptions made to arrive at the financial impacts listed above, and provides further information on how the financial impacts were built. You should examine this section carefully in order to determine whether the assumptions appear reasonable and appropriate.

This section provides a detailed listing of the increases in expenditures, by first level expenditure type and number of new employees.

FISCAL IMPACT:

	FY2000 Difference	FY2001 Difference
FTE	5.00	5.00
Expenditures:		
Personal Services	$285,900	$285,900
Operating Expenses	116,750	116,750
Equipment	593,026	593,026
TOTAL	$995,676	$995,676
Funding:		
State Special Revenue (02)	$995,676	$995,676
Revenues:		
State Special Revenue (02)	$995,676	$995,676

Local impacts noted on the first page are discussed here.

EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:
No impact – counties have collected these funds and transmitted them to the state treasurer for four years. Continuation of this program will not have an impact on county or other local r... revenue is no longer collected, Montana courts will have to find another fundin... automated case management information systems.

Long-range impacts noted on the first page are discussed here. (Value statements of this nature are not usually made in this context.)

LONG-RANGE IMPACTS:
This surcharge funds the court automation program. The courts, using the automated system, have developed a solid foundation for an integrated justice information system. If funding for this program is not continued, the Montana judicial system will fall even further behind in the technology race and access to judicial and other justice system information will be reduced or eliminated.

TECHNICAL NOTES:
1. The automated case management systems currently installed in the courts m... upgraded on a regular basis as technological enhancements occur.

The budget director may provide additional information, as he or she deems appropriate.

CREATING A BILL WITH A STATUTORY APPROPRIATION

A legislator may request – or be asked to support – legislation that includes a statutory appropriation. Statutory appropriations ensure that a certain level or source of funding is always available to support the operation the bill addresses. As previously stated, the legislature does not review all statutory appropriations regularly, in order to determine either whether the function should continue, and/or that the level or method of funding remains appropriate. Consequently, the legislature has established guidelines in statute addressing the circumstances under which statutory appropriations are most appropriate.

When crafting or reviewing legislation, you may wish to consult these statutory guidelines. While they do not prohibit the creation of statutory appropriations that fall outside the parameters, they do provide a means for determining whether or not a statutory appropriation follows the general philosophy of the legislature and whether it demonstrates appropriate legislative review and control. The following guidelines are contained in 17-1-508.

"A statutory appropriation may be considered appropriate if:

1) The fund or use requires an appropriation;
2) The money is not from a continuing, reliable, and estimable source;
3) The use of the appropriation or the expenditure occurrence is not predictable and reliable;
4) The authority does not exist elsewhere;
5) An alternative appropriation method is not available, practical, or effective;
6) Other than for emergency purposes, it does not appropriate money from the state general fund;
7) The money is dedicated for a specific use;
8) The legislature wishes the activity to be funded on a continual basis; and (emphasis added)
9) When feasible, an expenditure cap and sunset date are included."

Note: If you are unsure or want some general advice, please contact the Legislative Fiscal Division and we will be happy to assist you.

CREATING A BILL WITH A STATE SPECIAL REVENUE ACCOUNT

In some instances, a legislator may request or be asked to support a bill that establishes and/or provides an appropriation from a state special revenue account. Because state special revenue accounts preclude the use of certain revenues for other purposes and because they can receive a lower level of scrutiny, the legislature has established certain "principles of revenue dedication" in statute. While the principles do not prohibit the establishment of any state special revenue accounts or appropriations therefrom, it may be desirable to consult the principals for clarification of general legislative philosophy and policy, thus helping ensure that any action taken is consistent with policy.

"17-1-507. Principles of revenue dedication.

(1) It is the policy of the legislature that a revenue source not (emphasis added) be dedicated for a specific purpose unless one or more of the following conditions are met:

a. the person or entity paying the tax, fee, or assessment is the direct beneficiary of the specific activity that is funded by the tax, fee, or assessment; the entire cost of the activity is paid by the beneficiary; and the tax, fee, or assessment paid is commensurate with the cost of the activity, including reasonable administrative costs.
b. there is an expectation that funds donated by a person or entity will be used for a specified purpose. Grants from private or public entities are considered donations under this subsection.
c. there is a legal basis for the revenue dedication. A legal basis is a constitutional mandate, federal mandate, or statutory requirement in which a source of funds is designated for a specific purpose.
d. there is a recognized need for accountability through a separation of funding from the general fund consistent with generally accepted accounting principles.

(2) The total funding for a program is a legislative budget and policy issue for which a dedicated revenue provision may not be justified if:

a. a general fund appropriation is needed to supplement the dedicated revenue support for the program or activity; or
b. dedicating a revenue source or portion of a revenue source diverts funds that could be considered a general revenue source.

(3) In the consideration of the general appropriations act for each biennium, the legislature shall determine the appropriateness of dedicating revenue to a program or activity under conditions described in subsection (2). The office of budget and program planning shall describe the occurrence in its presentation of the executive budget, and the legislative fiscal analyst shall highlight the issue in the budget analysis and for the appropriations subcommittee considering the revenue dedication."

Note: If you have any questions about the principles and how they might apply to specific legislation, please let us know and we will be happy to assist you.

POST SESSION AND INTERIM ACTIVITIES

The purpose of this section is to provide information about what happens to budgets and appropriations after the legislature leaves, and the circumstances under which they can be adjusted.

This section discusses:

1) expenditure plans and how they can be changed;
2) legislative review; and
3) what happens if the budgets becomes out of balance or agencies have insufficient authority to meet expenditures in the interim between sessions.

It is designed to answer the following questions.

1) What happens after the legislature leaves?
2) What legislative review takes place?
3) Can budgets be changed? Under what circumstances?

OVERARCHING REALITIES GOVERN THE INTERIM

Because the legislature is only in session for a portion of the biennium, and because state government entities are dynamic, the legislature has provided means for addressing issues that may arise during the interim between sessions.

There are four overarching realities that dictate the expenditure of funds:

1) The Montana Constitution (and Montana Statute) requires strict accountability of all funds received and money spent by the state and counties, cities, towns, and all other local governmental entities. (Article VIII, Section 12, Title 17, Montana Code Annotated.)
2) Montana's Constitution prohibits expenditures in excess of revenues and prohibits the use of debt under those circumstances.
3) Only the legislature can increase an agency's general fund appropriation over the biennium.
4) Agencies cannot, under any circumstances, overspend their appropriations. Either appropriation authority must be increased or expenditures reduced.

OPERATING PLANS AND CHANGES TO THE PLAN

After the legislative session, agencies must establish an operating plan in the state accounting system. This is a financial outline detailing how the program expects to expend the appropriation provided by the legislature. The initial operating plan must be an exact reflection of the appropriation provided by the legislature.

Can Operating Plans Be Changed During the Year?

As long as the legislature has not restricted any of the appropriations, agencies are allowed to change their operating plans throughout the year in order to meet changing circumstances. This can be done by use of two primary means. Each is discussed below, with a discussion of legislative oversight of those changes.

1) **Program transfers and operating plan amendments**. Agencies can move funds between programs and among categories of expenditures within programs. These changes are offsetting, either between programs or types of expenditures, and do not add any overall authority to the agency.

   Legislative Oversight – Statute doesn't put any limit on the size or number of changes, although the "approving authority" must approve all program transfers and operating plan changes. If the change is significant enough to signal a potential change in policy from the legislative appropriation (defined in statute), it must be reviewed, prior to enactment, by the Legislative Finance Committee.

2) **Budget amendments.** Agencies can add new federal funds (and state special revenue funds in an emergency) if the funds could not have been anticipated by the legislature and do not make any present or future commitment of general fund. Budget amendments represent an increase in the overall authority available to an agency.

   Legislative Oversight – Budget amendments cannot be added without the approval of the agency's approving authority. Statute is very specific as to the circumstances under which authority to spend money can be added via budget amendment. The approving authority must certify that the statutory criteria have been met, though statute does not require legislative review prior to approval. The Legislative Finance Committee reviews all budget amendments after the fact. Legislative Fiscal Division staff does review budget amendments prior to approval, however.

WHAT HAPPENS IF REVENUES ARE LESS THAN ANTICIPATED AND/OR EXPENDITURES ARE HIGHER?

Circumstances can result in major fiscal difficulties during the interim, either on a statewide or individual agency basis:

1) a reduction in revenue or an increase in expenditures can result in an imbalance between revenues and expenditures, with insufficient revenues to cover all appropriations given by the legislature; or
2) within an individual agency, anticipated or known general fund expenditures are greater than the amount of appropriation authority granted by the legislature.

Given the overarching realities cited above, the legislature has provided certain means for dealing with these circumstances.

Imbalance Between Revenues and Expenditures

If a general fund deficit is projected during the interim, statute allows the Governor to order agencies to reduce expenditures. (The Governor cannot reduce general fund appropriations, which is power granted exclusively to the legislature by the Montana Constitution.) There are a number of caveats on this provision:

1) the projected imbalance must meet a statutory trigger point, and the budget director must seek the advice of the Revenue and Taxation Committee;
2) the reduction can be no more than 10 percent;
3) the Governor cannot order a reduction in spending for certain functions, such as K-12 BASE aid, state debt, or salaries of elected officials. Neither can the Governor order the Legislative Branch or the Judiciary to reduce expenditures.

If these measures are insufficient, the legislature must meet in special session to raise revenues or reduce appropriations.

Legislative Oversight – All recommended reductions in spending must be reviewed by the Legislative Fiscal Analyst. The Legislative Finance Committee must meet within 20 days of the date of the proposed reductions and can make recommendations on those reductions to the Governor.

Insufficient Authority to Meet Expenditure Requirements

In the first year of the biennium, if an agency anticipates general fund expenditures will exceed its general fund appropriation, it can request that the Governor (or appropriate approving authority) move general fund from the second year's appropriation into the first year through a supplemental appropriation (appropriation transfer). Statute requires that the circumstances be an unforeseen and unanticipated emergency; the agency submit a plan on how it will operate in the second year within context of the reduced appropriation available after the transfer. The Governor has not increased the overall general fund appropriation for the biennium, but has shifted appropriation authority from the second year to the first.

Legislative Oversight – The Legislative Fiscal Analyst reviews proposed supplemental appropriations. Before the Governor or other approving authority can approve the transfer of general fund from the second year to the first, the Legislative Finance Committee must review the supplemental appropriation. The committee can choose to report to the approving authority on whether it believes statutory requirements have been met, or it can choose not to report. If the committee chooses not to report, the approving authority must wait 90 days before it can approve the transfer.

If the agency anticipates spending more in the second year than is available through appropriation, it must request additional authority from the legislature during the legislative session.Budget Publications

BUDGET MATERIALS

Purpose: To make the legislature aware of the budget publications available before and throughout the legislative session. All such publications are designed as aids in understanding budgets and making budgetary decisions.

Content: The following publications are available. One is produced by the Governor's Office of Budget and Program Planning, four by the Legislative Fiscal Division:

1) Governor's Executive Budget
2) Legislative Budget Analysis
3) Legislative Fiscal Division General Fund Status Sheet
4) Legislative Fiscal Division HB 2 Narrative
5) Legislative Fiscal Report

GOVERNOR'S EXECUTIVE BUDGET

Produced by: Office of Budget and Program Planning (OBPP)
Available: Late November/early December
Where: Copies are mailed to all legislators and are available from the Governor's Office
Is it on the Internet? Yes: http://www2.state.mt.us/budget/2003_Budget/index.htm

The Governor is responsible for submitting a proposed budget to the legislature for consideration prior to the start of the legislative session. The budget is composed of several volumes, reflecting certain statutory requirements. The primary components of this budget are included in the first volume, but this document consists in two parts:

1) An overview that summarizes the Executive Budget and highlights certain budgetary issues; and
2) A summary of the proposed budget for each program within each agency, including the Long Range Building Program, and proposed rates and related justification for all proprietary funded programs. The Executive Budget Narrative highlights major changes proposed to the budget, and provides program and agency descriptions, program indicators, organization charts, and in-depth discussion of selected issues. The narrative for each program and agency includes a summary table showing the base budget, along with proposed present law adjustments and new proposals. This table is duplicated in the LFD Budget Analysis, and is discussed in more detail in that section.

LEGISLATIVE BUDGET ANALYSIS

Produced by: Legislative Fiscal Division (LFD)
Available: All sections are available prior to the start of the legislative session.
Where: Copies are provided to all legislators and are available from the legislative branch.
Is it on the Internet? Yes: http://leg.state.mt.us/fiscal/index.htm

This document is produced to aid the legislature in setting its fiscal priorities and reflecting those priorities in the general appropriations act and other fiscal legislation. It does this by providing an objective analysis of the Executive Budget and the state's fiscal picture. The *Budget Analysis* deals with a number of subjects and serves several purposes. Highlights include:

- A summary of the state's financial picture as it enters the legislative session;
- A summary and analysis of the Governor's overall budget proposal;
- A discussion and analysis of statewide fiscal issues of importance, whether proposed by the Governor or not;
- A detailed listing and explanation of present law and new proposal adjustments proposed by the Governor, by agency and program; and

- A discussion of issues and comments on the Governor's agency budget proposal and other fiscal issues of importance within those agencies

The *Budget Analysis* consists of three documents, each having a number of sections and purposes.

1) The *Legislative Budget Analysis Overview*;
2) *Revenue Estimates*; and
3) The *Agency Budget Analysis* (in two volumes).

Legislative Budget Analysis Overview

Available: Just prior to the start of the legislative session.
Where: Copies are mailed to all legislators and are available to legislators through the LFD offices and to the general public through legislative distribution.
Is it on the Internet? Yes: http://leg.state.mt.us/fiscal/index.htm

The *Overview Volume* of the *Budget Analysis* presents a broad fiscal overview and summarizes significant fiscal issues that may impact more than one agency or that do not fall under the jurisdiction of a single fiscal subcommittee. Legislators can use the overview to get the following:

- A broad picture of the state's overall economic picture and how much money is available for expenditure or other purposes;
- An overview of the Executive Budget, including a discussion of major issues;
- A discussion of other fiscal issues that may have an impact on the budget; and
- A primer on basic budget terms and concepts

The Overview contains:

1) An analysis of the status of the general fund at the end of the current biennium, as well as the projected balance for the upcoming biennium given the expenditures proposed in the Executive Budget and Revenue and Taxation Committee revenue estimates;
2) A summary of the proposals included in the Executive Budget and the Legislative Fiscal Division's analysis of those proposals , including a complete discussion of issues that cross agency lines;
3) An analysis of other issues of statewide importance or application not proposed by the Executive Budget, but which have a bearing on the state's fiscal picture; and
4) A reference section that explains budgetary concepts, as well as a primer on K-12 education funding.

Legislative Budget Analysis – Revenue Estimates

Available: Late November, prior to the start of the legislative session.
Where: Copies are provided to all legislators by the Legislative Fiscal Division and are available to the public through legislative distribution.
Is it on the Internet? Yes: http://leg.state.mt.us/fiscal/index.htm

The Legislative Fiscal Division estimates, general fund and selected state special revenues prior to the start of the legislative session. The Revenue and Taxation Committee examines these estimates, along with estimates made by the executive branch, and makes recommendations to the full legislature. The *Revenue Estimates Volume* contains those recommendations.

Legislative Budget Analysis – Agency Budgets

Available: Start of the legislative session.
Where: Copies are available for distribution through the LFD to all legislators and a limited number of copies are available to the general public through legislative distribution.
Is it on the Internet? Yes: http://leg.state.mt.us/fiscal/index.htm

These volumes provide a detailed analysis of the Executive Budget to aid the legislature in constructing agency budgets for the coming biennium. The agency analysis serves as: 1) the vehicle through which legislative staff can provide a discussion about the Executive Budget and any other fiscal issues pertaining to agencies; and 2) the

working document for all Joint Appropriations Subcommittee work during the subcommittee hearing portion of the development of HB 2. The volumes provide the following:

1) A detailed listing, explanation, critical analysis and discussion of the Governor's proposed budget for each agency and program of state government; and
2) Discussion of other issues pertinent to agency budgets and operations designed to aid the legislature in determining agency operations and funding.

This analysis is the primary tool used by the House Appropriations and Finance and Claims Committees when constructing the General Appropriations Act (HB 2) for recommendation to the full legislature. Because the analysis is structured around the Joint Appropriations Subcommittee agency groupings, legislators and others interested in a particular agency can consult the volume containing that agency's budget. Individual agency and program budgets can also be downloaded separately from the Internet.

LEGISLATIVE FISCAL DIVISION GENERAL FUND STATUS SHEET

Produced by: Legislative Fiscal Division
Available: Generally mid-way through the legislative session as budgets begin to be established, and at least weekly thereafter.
Where: Copies are distributed to all legislators and are available through legislative distribution.
Is it on the Internet? Yes: http://leg.state.mt.us/fiscal/index.htm

The purpose of the general fund status sheet is to provide the legislature with a detailed picture of the general fund. The status sheet is designed to aid legislators in determining an appropriate mix of revenue and appropriations measures that together will result in the desired ending balance of the general fund at the end of the coming biennium. It is the primary document used to aid the legislature in balancing the state's budget. The General Fund Status Sheet contains the following.

1) A balance sheet showing the projected general fund ending balance given current and proposed legislative action.
2) A listing of all appropriations bills given a positive recommendation by at least one committee, which, if passed, will impact the ending fund balance available.
3) A listing of all bills given a positive recommendation by at least one committee that, if passed, will impact revenues collected by the state, and their impact on the projected ending fund balance.
4) A listing of other bills with fiscal impact. (The fiscal impact of these bills is not reflected in the projected ending fund balance, as the legislature can choose whether to reflect that potential impact in budgets.)

HB 2 NARRATIVE

Produced by: The Legislative Fiscal Division
Available: Beginning with deliberations on HB 2 before the House Appropriations Committee in early March, and updated throughout the process.
Where: Copies are provided to members of the committees hearing HB 2, including the House and Senate Committees of the Whole. Copies are not available to the general public.
Is it on the Internet? No

Because HB 2 is very complex and consists primarily of listings of numbers, the Legislative Fiscal Division produces a working document that explains current legislative action on each agency and program. Legislators can use this document to gain understanding of agency budgets , and any changes to those budgets made throughout the budget process. It shares the same overall structure as the Agency Budgets Section of the *Legislative Budget Analysis.*

LEGISLATIVE FISCAL REPORT

Produced by: The Legislative Fiscal Division
Available: June, following the conclusion of the legislative session.
Where: Copies are mailed to all legislators and are available through the Legislative Fiscal Division and to the general public through legislative distribution.
Is it on the Internet? Yes: http://leg.state.mt.us/fiscal/index.htm

The *Legislative Fiscal Report* is produced by the Legislative Fiscal Division after the legislative session. It provides a guide to and a record of legislative actions relative to the budget. It follows the same structure as the *Legislative Budget Analysis*, and provides an overview document and a detailed listing of all agency and program budgets for the coming biennium.

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